FOURTH PLAN - A STRATEGY FOR ECONOMIC GROWTH?

DR. F. A MEHTA

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, bur as an affirmative good."

—Eugene Black

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By

DR. F. A. MEHTA

The Draft Outline of the Fourth Plan, which has just been "approved" by the National Development Council, marks at least in a formal sense the resumption of 'planning' after a so-called thee-year Plan Holiday. Only those who are so naive as to see in a Plan little more than an array of statistics will, however, miss the central fact of the new situation, which is that the entire {framework of planning in India has changed.

At the best of times, the task of the Planning Commission as a co-ordinating agency of Indian economic development has never been easy or pleasant. One is reminded of the story one learnt at school of the father, the son and the donkey as the three rode from one village to another; their efforts to please all ended up displeasing all. Armed, however, for long with virtually executive powers under the protective wings of the then Chairman, Pandit Jawaharlal Nehru, the Planning Commission was not too actively worried about the penalties of unpopularity. The new situation is decisively different.

Economically, the emphasis on agriculture, power and family planning in the Fourth Plan would in

***This text is based on a speech delivered under the auspices of the Forum of Free Enterprise in Bombay on April 23,1969. The author is Economic Adviser to a business house.**

any case have brought the influence of the States to the forefront, as these are subjects in which the principal agency of plan implementation are the States, not the Centre. Legally, it marks the triumph of the Concurrent list of Subjects within the Constitution. Above all politically, the different States are now far from being an homogeneous body. Planning as it enters a critical stage of de-centralised implementation requires the utmost unity from the different States, or at least, a strong co-ordinating agency; neither of these two vital conditions exists.

The N.D.C.: *A* Tower of Babel?

Thus it is that the National Development Council (NDC) which was for well over a decade the rubber-stamping agency of the Planning Commission has now emerged as its master. But it is a master with many voices, often conflicting one with the other. The N.D.C. is not a College of Cardinals appointed to elect unanimously the new Pope; it is not even the All-India Congress High Command on which is enjoined the duty of evolving a "consensus". It is a body of warring lords united only in their Oliver Twist mission of asking for more—and more. Whether it is the question of plan allocations, or of agricultural prices or of industrial licensing, or in the near future, even of industrial legislation, it is the States which shall dictate through the National Development Council. But because the N.D.C. speaks with different voices, planning, instead of being an economic order, threatens to resemble the Tower of Babel. All the elaborate targets and capital output ratios are now of "paper-value"; there is neither an assured co-ordinating agency nor assured implementational agencies. In this context, the Finance Commission may well become a more useful—or at any rate, a more practical—agency of planning than the Planning Commission.

But the other equally important avenue in which harmony must be secured is between the Government (or Governments) and the private sector, particularly private sector industry. The cold war between them must cease; it is psychologically ruinous, economically fatal. This would be a platitude for any Plan at any time, but for the Fourth Plan, it is a cold, realistic necessity. The private sector has, for the first time since 13 years, been assigned an important quantitative role. While public sector outlay in the Fourth Plan will, at Rs. 14,393 crores, be less than double that of Rs. 8,631 crores in the Third Plan, private sector investment is expected to be much more than doubled from Rs. 4,190 crores in the Third Plan to Rs. 10,000 crores in the Fourth Plan.

Right Priorities Not Enough:

Are we then committed in the Fourth Plan to a basic strategy which for all practical purposes is a repetition of the past priorities and past policies? Already in the field of priorities, there has been a welcome shift in favour of agriculture. The statement often made that the percentage allocations to agriculture and irrigation under the Draft Fourth Plan are more or less the same as those under the Third Plan is highly deceptive. For one thing, it ignores the fact that the deflationary impact of devaluation on the outlays under agriculture and irrigation has been significantly less than that on the outlays under industry and minerals; indeed, due to devaluation alone, the percentage allocations to the different sector as between the Third and the Fourth Plans are strictly not comparable. For another thing, the Fourth Plan outlay under agriculture of Rs. 2,218 crores does not take into account an investment of as much as Rs. 1,015 crores to be made by financial institutions in this vital sector during the Fourth Plan. Again, significant expenditures made under different sectors

are, in fact, earmarked for agriculture; under industry, an allocation of Rs. 483 crores is made to fertilisers, and under power, a sum of Rs. **313** crores is provided largely for the energisation of irrigation pump sets.

Right Policies Also Needed:

But right priorities are not enough; right policies are also required—right policies in the field of taxation, of pricing of industrial products, of licensing of projects; no less in the methodology of planning.

We accept, very rightly, that the burden of taxation should not be so high as to interfere in any way with the agricultural break-through; but we simultaneously accept as obvious that there are no limits to taxation on incomes generated outside agriculture. We accept, again very rightly, that agriculture must be supplied both stability and profitability through the medium of incentive prices; but we simultaneously witness threats given in Parliament by the highest of the powers-that-be that if price decontrol leads to any price increases, suitable action or investigations will be immediately undertaken against the "erring" industries.

Low taxation and price incentives are absolutely essential to achieve maximum levels of investment and production in agriculture; they are somehow not necessary at all to achieve maximum levels of investment and production in industry. Thus, it is that the great doyen of growth-economics, Prof. W. Arthur Lewis, has recently stated:

> "In several of (the developing) countries, official spokesmen appeal frequently for new private investment, and publish Plans predicated upon large amounts of private investment, but since at the same time they hedge private investment round with restrictions and licences, and take steps to keep private profit low, these appeals and Plans come to nothing."*

Will this "come-to-nothing" episode also be true of our Fourth Plan which expects—on paper at any rate—a sharp increase in private sector investment to Rs. 10,000 crores from about Rs. 4,200 crores during the Third Plan?

One can only pray that this will not be so. It should not be so because--to anticipate the 'theme of this paper—the biggest single beneficiary of the sharp increases in private sector investment will, in effect, be none other than the Government in general and the public sector industry in particular. At no time has the Indian economy been so placed as it is now to make every successive increase in private sector: investment rebound so substantially to the benefit of public sector industry; and at no time has Indian industry been blessed with such propitious circumstances as it is now to permit the introduction of the price-mechanism with its consequent dismantling of controls.†

But before this thesis is argued, let us first obtain a bird's-eye-view of the Draft Fourth Plan.

Is the Fourth Plan *Really a Big* Plan?

Nominally, the Fourth Plan with its total outlay of nearly Rs. 24,400 crores is over 92 per cent higher than that of Rs. 12,677 crores of the Third Plan, but this comparison makes little sense for the obvious reason that inflation has sharply reduced the real

*Dr. W. Arthur Lewis: "Development Planning: The Essentials of the Economic Policy".

†This particular point has already been brilliantly argued by Mr. Ashok V. Desai in "Industrial Planning Method" (The Economic Times, April 2, 1969).

value of the investments to be made in the Fourth Plan. However, one must here avoid the opposite error of straightaway deflating the outlays by a common wholesale price index series. This is statistically incorrect, economically unjustifiable. It is statistically incorrect because the Plan deals largely, but by no means entirely, with capital investment to which the more relevant deflating series to apply is that of Industrial Capital Goods, and not of the Wholesale Price Index Series which is largely dominated by the prices of agricultural commodities. It is economically unjustified because this method ignores what is, perhaps, the most remarkable phenomenon in this decade, namely the sharp swing in the terms of trade in favour of agriculture against industry. The wholesale price index thus reflects principally the impact of the sharp increase in agricultural prices, not the relative small increases in industrial prices. *

While the correct scientific manner of deflating the outlays may be left to expert statisticians, a rough idea can be obtained by applying the Industrial Capital Goods Index Series (**1960-61 = 100**) to **70** per cent of the total Plan outlay and the Wholesale Price Series to the remaining **30** per cent, it being presumed that **70** per cent of the total Plan outlay represents new capital investment and **30** per cent, current revenue expenditure. When this is done, we find the Fourth Plan outlay to be in real terms about 50 per cent higher than that of the Third Plan. However, by applying crudely the Wholesale Price Index as is often done, the Fourth Plan outlay would be barely **30** per cent higher.

A Big Plan by Itself Not *a Menace:*

If the Third Plan outlay of Rs. **12.677** 'crores produced such great stresses and strains culminating in the devaluation of the rupee, will not then a Plan 50 per cent higher mean a grave threat to price-stability and the balance-of-payments?

Here, general and specific issues both arise. The general issue is that of planning. If planning is accepted as an organisational element of economic growth—and this is essentially what good planning should be—then a certain boldness in target-setting is inevitable. Many leaders of private sector industry who set bold targets in their own corporate planning are horrified at bold targets in national economic planning. Further, the recession has demonstrated perhaps with too severe a clarity the inter-dependence of the two sectors of industry. Provided target-setting does not degenerate into romanticism, some degree of boldness is not only inevitable but positively desirable.

Secondly, there are promised within this Draft a vast chain of measures that could effectively help meet the threats of "the Big Plan". The emphasis on agriculture in general and on the building-up of foodgrain buffer-stocks in particular—the plea for increasing consumer-goods production, and above all, the promise of using the Annual Plan technique to evaluate each year the true "resourcability" of the economy—all these are measures which could prevent the repetition of the principal errors of past planning. What then would be meaningful is not a blind opposition to the "Big Plan", but a rational insistence that the emphasis on agriculture, on consumer-goods, and above all, on Annual Plans should be translated into reality.

Finally, there is the perspective of all things Indian. A mere increase of **50** gms. per day in the per capita consumption of foodgrains necessitates an additional availability of **10** mn. tonnes; a sum of half a billion dollars of foreign aid looks huge till it is realised that

***(With 1962 = 100, the agricultural price index even after the lull of last year stood during April 1968–February 1969 at 175.3 and and the industrial price index at 130.6.)**

all that it means is one dollar per year per Indian; arid finally with the capital: output ratio at 2.5 : 1 and the annual rate of population growth at 2.5 per cent. we need nearly Rs. 1,900 crores of investment each year to keep our per capita income constant. In other words, over a five-year period, Rs. 9,500 crores, or 43 per cent of the total Plan investment of Rs. 22,252 crores is required merely to keep the per capita income constant."

Significant Targets of the Fourth Plan:

We now come to the key targets of the Plan. Once again, these are distinctly ambitious, but if the technique of Annual Planning is used, it must be presumed that with inadequate resources making their presence felt, the targets too will be suitably "rolled" down.

* National Income is expected to increase at the annual rate of 5.5 per cent—this was the dream of the Third Plan which achieved only an annual growth-rate of 2.5 per cent. Nevertheless, this time, informed opinion agrees that with some luck and a mighty effort, both financial and organisational, a 4 per cent growth-rate is.possible.

* This will largely be because of agricultural production which, the Fourth Plan expects, will (should!) increase at an annual rate of 5 per cent. Here, again, taking into account the obvious impact of the monsoons, the terror of whose fluctuations will be met partly by buffer-stocking and largely by concentration on irrigated lands, a 4 to 4.5 per cent annual rate is deemed feasible.

* This "demographic investment" will of course be lower if the population growth-rate turns out to be lower than 2.5 per cent per year, or as is hoped for, the capital : output ratio declines from the current level of 2.5 : 1 to 2 : 1 during the Fourth Plan.

* Industrial production should forge at an annual rate of 9 per cent, and qualitatively should be in import-substitutive lines, like fertilisers, oil and non-ferrous metals (during the "Plan-holiday" period, the rate of growth of industrial production was 2 per cent and last year is expected to be nearly 6 per cent).

* In spite of an anticipated decline in birth-rate from 39 per thousand as at present (it was 42 per thousand around 1961) to 32 per thousand in 1973-74, population-growth will be as high as it is at present, namely 2.5 per cent, per year. Very significantly, this time family planning will secure an allocation of nothing less than Rs. 300 crores (Third Plan: Rs. 25 crores).

* The per capita income will thus increase by about 3 per cent per year.

* The rate of investment will have to be stepped up from the level of 11.5 per cent in 1967-68 to 13.8 per cent by the end of the Plan.

* Exports are expected to increase each year by 7 per cent. Imports of foodgrains will come to a stop after 1970-71, while those of non-foodgrains will be limited to an annual rate of 5 per cent per year.

Some Challengeable Assumptions:

Who will take seriously the Plan assumption of a stable price-level? Even in Germany, where the Constitution forbids deficit financing and whose record of price-stability is the envy of the world, there has been over this decade an annual increase of 2 per cent in the price-level. Incidentally, it is not too difficult to purchase price-stability at the cost of economic growth. At present, prices of a number of industrial

products are "stabilised"; this "stability" ensures stagnation in investment, production and employment.

Moreover, the Plan expects gross foreign aid to be as high as Rs. 3,650 crores (excluding Rs. 380 crores of PL 480 food aid) — significantly, debt repayments at Rs. 2,280 crores will "mortgage" nothing less than 62.5 per cent of this anticipated aid. On the other hand, hard to believe, the net inflow of foreign private capital is expected to be no more than Rs. 30 crores over the entire period of the Fourth Plan.

Again, is it really to be expected

a) that food-imports will come to a stop after 1970-71—or will it be sometime during the end of the Fourth Plan?

b) that deficit financing will contribute only six per cent (Rs. 850 crores out of Rs. 14,400 crores) as against 11 per cent during the last three years?

c) that the balance from current revenues which were actually negative at Rs. 419 crores during the Third Pl'an will be positive at Rs. 2,455 crores during the Fourth Plan?

d) that public sector enterprises will contribute Rs. 1,730 crores against Rs. 435 crores during the Third Plan?

But all these assumptions, howsoever unrealistic, may still be forgiven — the logic of events will "master-mind" the figures much better than anything else.

The Real Weakness of the Draft Fourth Plan

The real weakness of the Plan lies elsewhere. It lies in its overall failure to present a concrete approach and to supply specific policies. At places, it can be really bold*, but by and large, it has succumbed to the national game of fudging.

Consider, firstly and most importantly, its approach to the "conflict" between development and distribution. At least, three Chief Ministers are reported to have complained that the Draft Plan contains no mention of "socialism". Perhaps, the subtleties of Dr. D. R. Gadgil's drafting were beyond them, for if ever there was a Plan document which is worried at every stage about the problems of increased production and increased prosperity, it is this Draft Outline. "The dilemma which arises in the present phase of development" both in agricultural and industrial development is that in the short-run at any rate increased production leads to increased inequalities.

"It is clearly necessary to formulate and define firmly a policy in this matter which will seek a reconciliation between immediate economic gains and the declared long run social objective of stage

*** For instance, consider this piece:**

> **"The country cannot afford to freeze the existing technological situation merely for the sake of avoiding unemployment or providing additional employment. Such action only postpones the problem to a later date when its solution may become even more difficult. This means that subsidisation should be avoided as far as possible, that all protective measures are only for fixed period and that emphasis is placed on positive schemes of assistance which ensure appropriate location and continuous progress."**
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> **—"Fourth Five Year Plan — 1969-74 - Draft" p. 14.**

policy".* But if this is really so, who other than the Planning Commission should "formulate" this policy? With a lot of hedging and fudging, the Planning Commission ultimately plumbs for the "distributive approach".

The Specific Case of Consumer Goods

Again, we are agreed that "growth with stability" requires "that the supply of consumer goods should increase commensurately with the expansion of demand for these goods after allowing for the specified level of investment in each year".† But see:

> "In order to guard against the creating of monopolies and increase in concentration, it is proposed to lay down the principle that a new industrial licence would be given to an industrial house in the light of proved performance in relation to earlier licences. As a general rule, in relatively common industries such as for the production of consumer goods, new units should not be permitted to be set up by the big industrial houses, which would have ample scope for taking new ventures in technologically challenging fields."‡

Are there no better ways of encouraging new entrants than by "freezing the capacity of big, industrial houses? Has the growth of big industrial houses in Germany, Japan and in the USA prevented the upsurge of a large, modernised small-scale sector? Cannot a whole chain of incentives be made available to the small-scale sector without "freezing" the capacity of the large sector? The Approach of the Draft Plan, with all its pious plea for maximizing consumer

* **"Fourth Five Year Plan — 1969-74 - Draft", p. 14.**

† *ibid.* **p. 33.**

‡ *ibid,* **p. 239.**

goods production to restrain inflation and to increase employment will, if implemented, end up by achieving neither.

The Specific Case of Road *Transport*

Again, consider the Planning Commission's 'target' or hope that private sector investment in transport and communications will increase by more than four-fold from Rs. 250 crores during the Third Plan to Rs. 1,010 crores during the Fourth Plan. Yet, to our best knowledge, not one line is said to explain the basis of this hope....a strange thing rendered all the more strange by the fact, proved beyond doubt by countless committees, that the road transport industry is the most savagely taxed industry within the country.

This industry generates directly and indirectly a total tax-revenue for the Central and State Governments of Rs. 552 crores. Even if we presume that during each of the five years of the Fourth Plan, this tax-revenue increases by only 5 per cent, then this one industry and one industry alone will supply resources equal to 22 per cent of the total public sector outlay of Rs. 14,400 crores.

In return for every one rupee generated by the road transport industry, less than **30** paise will be spent on the development of roads. Apparently, not an iota of tax-relief is to be granted, but the private sector investment will in this masterful Plan document of "somehowism" increase by more than four-fold during the Fourth Plan.

The General Approach to the Private Sector

If this "schizophrenic" approach were evident only in a few places, it would be easily understandable. But, regrettably, it characterises the entire Plan ap-

proach to the private sector. One is reminded in this context of the practice of erstwhile Finance Ministers (this accusation is certainly not valid for the present Finance Minister) to say eminently sensible things about the evils of high taxation in their Part A Speech; and then proceed to impose fresh taxes in their Part B Speech. Likewise, the Planning Commission would like the private sector investment to increase substantially, but simultaneously it visualises a whole chain of conditions which will make this well-nigh impossible.

In order to enthuse private sector to achieve its targets of increased investment, the Draft Plan visualises an additional draft by the public sector on private sector resources of Rs. 3,930 crores of which Rs. 2,710 crores will be in the form of additional taxation. Commodity taxation will be "stepped up to restrain conspicuous consumption" and to mop up "producers' surplus in certain areas." Taxation of income and wealth will be made "more effective", while tax-incentives will as a general rule be withdrawn as "a means of msbilising additional resources".

To make no mistake as to who will garner the overwhelming part of the new savings generated is a Table on page 42, which the Chief Ministers complaining of the lack of "socialism" could profitably study:

RATIO OF NET DOMESTIC SAVINGS TO NATIONAL INCOME BY SECTORS

	Sector	1967-68	1973-74
1.	Households	6.1	7.7
2.	Corporations	1.1	1.1
3.	Public savings	0.8	3.8
4.	Total domestic savings	8.Q	12.6

The percentage of the households sector will just increase from 6.1 at present to 7.7 by 1973-74; the dynamic corporate sector (whose savings capacity, incidentally, has been demonstrated by several studies to be extremely high) will see no increase whatsoever; but the "public savings" share will increase from 0.8 to nothing less than 3.8 per cent.

The *True* Menace is of Price-Controls

But there should be no mistake by the private sector about the relative impact of taxation vis-a-vis price-controls. The latter are far more economically injurious, far more administratively time-taking, and in any case while taxation affects the profit plough-back, price controls strike at profits themselves. They strike at the very root of the industrial system. Yet, for all practical purposes, the prices of a vast range of industrial products are controlled, directly, indirectly or potentially. The threat of the re-introduction of price-controls at the whims of Government or on the pleas of vocal Parliamentarians hangs over industries like a Damoclean Sword.

Yet, it is not beyond human ingenuity to devise a system that will ensure the best of all worlds. For specific varieties or specific quantities of a particular product, which are geared to priority-sectors, there could be price-controls — outside this area, however, it should be declared with emphasis that for a period of seven years, Government pledges not to re-introduce price-controls. To our best knowledge, this time-period concession has been given with no small measure of success only in the case of fertilisers, but it needs to be applied with suitable modifications to a vast variety of industrial products. To make doubly sure of the targets of the Plan in respect of these industries, insistence could also be made that a certain percentage of the increased profits must necessarily be ploughed-back into a special account. This

would be not in substitution of but in addition to the existing development rebate.

Price-controls constitute the greatest threat to the capital formation of industry, and as the case of Hindustan Steel shows, this statement is also becoming increasingly true of the public sector industry. A clear-cut policy statement from the Government on this vital issue is a necessary prologue to the introduction of the Fourth Plan. Specific time-limits must be set for the freedom from price-controls; entrepreneurs cannot be emboldened to undertake substantial investments unless this freedom is assured.

Public Sector the Biggest Beneficiary of Investment Upsurge in Private Sector Industry

The failure to provide private sector industry with the conditions of growth will not only endanger the very success of planning in India; it will cripple the very growth of public sector industry in general, and of its "heavies" in particular. We are told again and again that as much as Rs. 1,200 crores worth of capital assets within the country are currently unutilised —of this, it is estimated that as much as Rs. 1,000 crores of such unutilisation is in public sector industry which is operating at 60 per cent level of utilisation. Full utilisation is, of course, not possible for various well-known economic reasons, but if half of this erstwhile unutilised capacity is to be utilised, then applying the capital: gross output ratio of 1 : 0.8 usually valid for such industries, it follows that, each year, on an average, at least Rs. 400 crores worth of additional demand for capital goods needs to be created to secure even an eighty per cent utilisation of existing capacities in the "heavies".

Of this, let us say that increase in non-traditional exports may hopefully account for 50 crores during

each of the five Plan years. Let us also say that the public sector will account for another Rs. 100 crores, bearing in mind that apart from fertilisers and petrochemicals, no new major industrial projects are contemplated in the public sector during the Fourth Plan. This still leaves private sector industry with the mighty task of generating fresh capital of Rs. 250 crores, which directly or indirectly, immediately or with a time-lag, will generate the demand for the capital-goods produced largely by the public sector.

Considering that the present annual gross capital-formation is in the vicinity of Rs. 220 crores, what is asked for is more than *a* doubling of the erstwhile capital of formation in private sector industry. The task is mighty; it is not impossible.

If an incentive tax-system is introduced, if price-controls are abolished or at least liberally operated, if industrial delicensing is meaningfully applied and if indicative planning is genuinely practised, it will become the sacred duty of private sector industry to undertake schemes of development and diversification. There can be then no alibi for inaction; there can only be every justification to meet great challenges of the Fourth Plan. Happily, at no time have conditions been so propitious for the introduction of economic freedom as now.

The biggest beneficiary of this dynamism of private sector industry will be the public sector. Once the capital market is stimulated, the activisation of the capital goods market is a matter of time, and who will be the biggest beneficiary of this other than the public sector "heavies"? Once again. if industrial activity is really stimulated, the stagnancy of the tax-revenues will be broken, and who will be the biggest beneficiary other than the Union and the State Governments?

For over ten years, it was the investment in the public sector that supplied the mainspring of investments in the private sector; in fact, the recession revealed with fearful clarity the extreme dependency of new private sector investments on governmental expenditure. But now, without any ideological overtones, there must be a reversal. It is now the growing investments in the private sector that will provide the markets for the huge but languishing investments of Rs. 3,500 crores in the public sector. In the best sense of the word, it is now the task and the duty of the private sector to rescue the pub'ic sector. "Give us the tools, and we shall deliver the goods."

Conclusion

The cold war must end; all ideology, both of the right and of the left, must cease. For the stakes are great. The slumbering giant of Indian agriculture has now awakened, crying aloud its gargantuan needs of credit, capital and foreign exchange; the severely neglected areas of road transportation, consumer-goods and electricity-generation call for increased efforts and expenditure, for it is a matter of time when increased agricultural incomes will demand more road transport, more consumer goods and more consumer goods and more power; the fascinating challenge of new technology that beckons us in several fields has to be faced; and the cries of our less fortunate unemployed brethren can be ignored only at our peril, for, from the stagnant pools of economic activity are born the germs of political agitation.

The quarrel now is not between a Big Plan and a Small Plan. Given the right priorities and the right policies—policies of taxation, of licensing and above all of pricing—a Big Plan may easily be feasible. In their absence, even a small Plan may fail to arouse enthusiasm and investment.

The quarrel now is not between agriculture and industry. The question now is how industry long geared to governmental and urban demands can help meet the long-neglected requirements of agriculture —on the supply side, by producing a flow of fertilisers, pesticides, machinery and so on, and on the demand side, by supplying an ever-increasing quantum of quality consumer goods.

Finally, the quarrel now cannot be between the private and the public sectors. The question now is how to activise private sector industry and investment, so that the continued recession in the public sector industry may end. To repeat in conclusion the theme of this paper, the biggest single beneficiary of a boom in private sector investment will be the public sector.

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

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

— A. D. Shroff
(1899–1965)
Founder-President,
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