PROBLEMS OF FREE ENTERPRISE IN INDIA

by

An Observer

FORUM OF FREE ENTERPRISE
235, DR. DADABHAI NAOROJI ROAD, BOMBAY-1

"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."

T. T. Krishnamachari

Finance Minister, India.

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AFTER successfully completing the First Five-Year Plan last March, India has stepped into a bigger phase of economic development. The second plan is much more ambitious than the first and has in fact been designed to make fuller use of the material and man-power resources of the country. Its principal objectives are: (1) a substantial increase in the national income; (2) rapid industrialisation, with greater emphasis on the development of basic and heavy industries; and (3) a vast increase in employment opportunities. The magnitude of the undertaking is best illustrated by the fact that, while the total estimated investment in the economy in the years 1951-56 amounted to only Rs. 3,100 crores, as much as Rs. 7,200 crores is proposed to be spent during the second plan period. Indeed, even this big outlay is regarded as inadequate by some of the Government leaders who would like to see the investment increased much more substantially.

Many economists have declared that the size of the second plan has no relation to the actual resources available to the nation, but whether the plan is extravagant or not, there is no doubt that India will have to go a long way before she can finally overcome the social distress and physical squalor which have so long darkened the lives of her people.

Attention has been drawn to these facts in order to show that the economic progress of India is essentially a long-term process and to emphasise the need for close co-operation between the State and free enterprise to ensure that the contemplated advance takes place on the required scale and within the prescribed period. Today no such understanding exists between these two principal agencies of progress. Still obsessed with the outmoded pre-war Socialist concept that free enterprise has no place in the modern society, some of our influential politicians have been clamouring for deeper inroads being made into the field of private industry. They have in fact developed the pathetic faith that India's progress and prosperity depend almost entirely on dispossessing the enterprising community and on transferring its assets to the State.

How untenable this belief is will be shown in the sequel, but before we do so, it is necessary to dispel the illusion that free enterprise in India is a hole and corner organisation that can be consigned to the scrap-heap without much ado. The record of the business class in India is at least as praiseworthy as that of the enterprising community of any other country. If anything, it is even more outstanding, for at no time till the attainment of national independence has the enterpriser in this country received that measure of help and guidance as has been readily extended to his counterparts in other lands. The great Indian cotton mill industry, the volume of whose annual output is now second only to that of America, came into existence and grew to its present pre-eminent position despite the implacable hostility of its powerfully-backed foreign competitors.

Similarly, when the late Jamshedji Tata decided to establish a steel factory in India, the project was considered to be so incredibly impractical that a highly-placed but cynical foreigner offered to eat every ingot of steel that came out of the Indian mill! Despite such derision and opposition, India gradually marched forward and succeeded in diversifying her economy by establishing efficient sugar, cement, hydro-electric, shipping, banking and insurance industries before the second world war. Thus, thanks to the initiative, the patriotism and the enterprising spirit of the business community, she rose to become the second foremost industrialised country in Asia.

The achievements of free enterprise in the post-war period have been no less impressive. "During and after the second world war", says an economist, "the basic trend of private enterprise was to explore about 40 new lines of industrial development, of which ship-building, automobiles, bicycles, non-ferrous alloys, machine and small tools, grinding wheels, chemicals, belting, abrasives, ball-bearings, industrial boilers, typewriters, textile mill machinery, road rollers, electric and water meters and piston rings were the important ones". He adds that private enterprise would certainly have given a better account of itself if the Government of India's industrial policy had been more liberal.

It is indeed a great tribute to the courage, fortitude and patriotism of the enterpriser that, despite enormous difficulties and uncertainties, he has ventured into new fields of economic activity and abundantly fulfilled the investment and production targets laid down for the private sector in the first plan. In this connection, the Planning Commission's observations in its "Programmes of Industrial Development, 1956-61" are worthy of note. Says this document: "New investment on industries in the public sector during the First Plan was expected to amount to about Rs. 94 crores. The actual outlay, according to the latest estimates, has only peen about Rs. 57 crores. Investment by the private sector on new projects and expansion programmes was expected to be about Rs. 233 crores and the latest estimates indicate that the actual investment has been of this order".

It is thus clear that free enterprise has not only not outlived its usefulness, but has in fact an enormous capacity to work for the prosperity of the country in an even greater measure. Nevertheless, the immensity of the task of galvanizing an economy that has for centuries remained stagnant and the need to fulfil the great expectations aroused in the minds of our people since independence, demand that the State should play a major role in the country's development. The State has a great advantage in assuming this responsibility because it is unfettered in formulating policies and in implementing them and because it has access to immensely bigger resources than can become available to the enterpriser. But none of these considerations can entitle it to claim a superior position or preferential treatment in relation to the private sector.

The complementary character of the two sectors has been well described by a writer who says: "Whatever proportion may at any time be normal, the point is that the whole of the field of production, income, and employment includes these sides, and that a good economy depends on each side being fully enterprising and efficient". There must thus be a genuine comradeship between the two sectors, a comradeship that should engage their strenuous and loyal exertions in pursuit of the common goal.

It is precisely because free enterprise is capable of playing a dynamic role in the development of the country that the principle of mixed economy has been accepted as a deliberate State policy. It is unnecessary to quote chapter and verse from policy documents in support of this obvious fact, but a brief reference to some of them may be made here in order to show later how there has been a growing divergence between precept and practice. Says the Second Plan document: "The increase in the output of goods and services to be secured over the plan period is the result of developments in both these sectors. The two sectors have to function in unison and are to be viewed as parts of a single mechanism. The plan as a whole can go through only on the basis of simultaneous and balanced development in the two sectors."

The Congress Party in its Election Manifesto' recognises the need for the continued existence of free enterprise and accordingly commits itself not to ask for the nationalisation of the existing private industries, "except where such is considered necessary in terms of planning or where they occupy a strategic position in the economy of the country". The Manifesto further declares that "private industry will be encouraged" subject, of course, to the requirements of planned progress.

The Prime Minister has had a big share in shaping India's economic policy and his views on free enterprise carry considerable weight. Mr. Nehru has often spoken on the subject and the following quotation is derived from one of his speeches. Stating that it is "immoral" to base society purely on the acquisitive urge, the Prime Minister says: "That does not mean that we are doing away with private enterprise. Undoubtedly, it is useful so far as our country is concerned. I think there is much scope for it and where you allow private enterprise you should give scope, freedom and encouragement to it to develop".

These authoritative pronouncements make it abundantly clear that India has opted for a mixed economy, not as a temporary expedient, but as an enduring feature of her economic policy. She has done so because she is convinced that the mixed economy provides the only effective means for the smooth and speedy development of the country and for preserving the institutions of political democracy. The successful implementation of this principle will disprove the assumption that State and private enterprises are like oil and water that can never mix. In fact, the two can and must work together, while at the same time preserving their distinctive character. But such a happy understanding between them can exist only if there is a frank recognition of the fact that, apart from its past achievements, free enterprise is capable of much useful public service both in the present and in the future.

Unfortunately, this well-deserved recognition is being withheld from free enterprise in this couhtry, thereby causing a good deal of dissatisfaction and uncertainty among the enterprisers. There are many factors that have contributed to this unhappy situation, and they need thorough ventilation so that the present misunderstandings between the Government and private enterprise may be removed.

Let us begin our study of the relations between the State and private enterprise with an appraisal of the Government of India's Industrial Policy Resolution of 30th April 1956. The Resolution, which replaces that of April 1948, provides a good basis for examining whether free enterprise is being given all reasonable opportunities to make its contribution to the industrial development of the country in proportion to its resources, ability and experience. If this cardinal test is applied to the Government's industrial policy, it will be found to be most unsatisfactory. In fact, the latest statement is even less liberal than the previous one since it greatly reduces the scope for private industry. This becomes obvious if a comparative study of the two documents is made.

The principal features of the Industrial Policy statement of 1948 are that it established Government

monopolies in the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport. In the case of six industries, namely, coal, mineral oils, iron and steel, air-craft manufacture, ship-building and the manufacture of telephone, telegraph and wireless apparatus, exclusive of radio receiving sets, it was laid down that the Government should be exclusively responsible for the establishment of new units "except where, in the national interests, the State itself found it necessary to secure the co-operation of private enterprise". The rest of the industrial field was left open for exploration by the private sector.

The business community was asked to welcome this industrial policy as its magna charta, which it would perhaps have done if the statement had not at the same time asserted that the "inherent right of the State to acquire any industrial undertaking" would always remain. Such an assertion rendered nugatory the very raison d'etre of dividing the responsibility for industrial development between the two sectors. In fact, it introduced a large element of uncertainty in the whole arrangement which, besides establishing a thoroughly unequal relationship between the two sectors, placed the weaker partner entirely at the mercy of the stronger member. The fears of the business community were confirmed in the subsequent years when some of its cherished enterprises like life insurance were taken over by the Government.

The latest industrial policy is, as we have said, even more radical. It vastly increases the jurisdiction of the State in the industrial sector. Besides the three monopolies and the six industries, in which expansion, under the 1948 Resolution, had been exclusively reserved for the State, many more industries have now been brought into the category of enterprises whose future development will be the exclusive responsibility of the State. The number of such industries listed in Schedule A of the Resolution is seventeen. The Government may, however, seek the co-operation of the private sector in setting up new units in this category if the national interests so require.

The second category, mentioned in Schedule B, consists of twelve industries. In order to ensure their rapid expansion, the Government will take the initiative in establishing more units in this sector, while at the same time encouraging free enterprise to do likewise. All the remaining industries go into the jurisdiction of free enterprise, although here too "it will be open to the State to start any industry".

This, in brief, is the revised industrial policy of the Government of India. It is true that, unlike the Resolution of 1948, it makes no specific reference to the acquisition of private industry by the State, but the fact that it asserts the right of the Government to start new units in whichever category of industries it chooses provides little immunity to free enterprise from encroachment. In fact, the new policy makes the "interpenetration" of the public and private sectors extremely one-sided.

There cannot be any legitimate objection to the Government's participation in the development of the country. That indeed is the prevailing tendency in many other countries, as it is obviously impossible for free enterprise to meet single-handed the manifold social and economic needs of a modern State. But it cannot justifiably widen the field of its activity if by doing so it reduces the opportunities of free enterprise to function effectively. In his address to the Bombay Rotary Club in May 1956, Dr. John Matthai declared that "free enterprise should be the rule, state enterprise being confined to cases where there is proved necessity for it."

Judged by this standard, the Government's industrial policy will be found to be most unsatisfactory. The fact that it does not deal fairly with free enterprise is also the opinion of impartial foreign observers. For instance, Mr. Harry Robinson, an American Research Economist, in his closely reasoned and moderately presented study on India's industrial development policy, says: "The Resolution leaves much to be desired by the private investor, particularly a foreign investor, in the way of removing misgivings and uncertainties."

The President of the World Bank, Mr. Eugene Black, is even more explicit in suggesting that free enterprise in India should be given greater opportunities to grow to its full stature and thus assist in hastening the country's progress. It is important, he says, that the respective roles of public and private enterprise should be "fixed entirely on a basis which will ensure the most effective contribution of each to economic development, and not on any theoretical concept of the role that each should play."

Mr. Black continues: "I see a tendency towards this latter approach in your Industrial Policy Resolution of last April, which reserves to the State exclusive responsibility for new undertakings in a large number of industries, including oil, coal and other minerals. It seems to me that this policy, if rigidly applied, could only result in imposing heavy additional burdens on the already overstrained financial and administrative resources of the public sector and in restricting the rate of development in these vitally important fields." In order to avoid such a glaring maldistribution of responsibility, the World Bank President urges, in the wider interest of India, that private enterprise should be given "every encouragement to make its maximum contribution to the development of the economy, particularly in the industrial field."

The second point on which free enterprise has good reason to join issue with the Government is its policy of nationalisation. The manner in which the State has begun to thrust its oars into what have so long been the home waters of free enterprise is truly alarming. The nationalisation of air transport, the Imperial Rank of India and life insurance and the growing incursions of the Government into private trade, as borne out by the activities of the newly-formed State Trading Corporation, have had the most unsettling effect on the psychology of the investing public. And yet these extreme measures were unnecessary.

It may be that the nationalisation of life insurance, for example, has, to quote the second plan document, added another "potent instrument to the repertory of the public sector for raising savings and for regulating and directing the flow of funds in accordance with the requirements of the plan", but discerning persons, who do not want to see the long-term interests of the country mortgaged to the expediencies of the hour, have greatly deplored the Government's action. To quote Dr. Matthai again: "I have read every statement made by those in authority justifying the nationalisation of life insurance and I must confess I am as unconvinced as ever."

It is unfortunate that there is a growing belief among some of the framers of India's economic policy that the socialistic pattern of society, which is proposed to be established in this country, can be achieved only through nationalisation. But the latest Socialist thought has rejected this belief. Even assuming that socialism is the only panacea to the ills of mankind, it is not necessary to divest the private sector of the means of production. Removal of social inequalities and creation of equal opportunities for all do not require the use of the extreme weapon of nationalisation, especially when these

eminently constructive goals can be realised by other means.

There are many Proudhons abroad in our country, who have no qualms about preachina the predatory doctrine that all property is theft. It is important that these men, some of whom control India's destiny, should know what the Labour spokesmen of Britain, than whom there cannot be more devoted Socialists, have to say on the subject of nationalisation and socialism. Mr. Hugh Gaitskell, Leader of the British Labour Party, says: "We have to admit that the simple, direct and unique relationship between wholesale nationalisation and the ultimate ideals of socialism which early theorists took for granted, cannot be assumed in the new circumstances today."

Indeed, some of the most ardent but open-minded British Socialists have frankly owned that ten years' experience in their country has revealed how little nationalisation can contribute to a rapid advance to fair shares. If, says Mr. C.A.R. Crosland, in his latest book called The Future of Socialism, "socialism is defined as the nationalisation of the means of production, distribution and exchange, we produce conclusions which are impossible to reconcile with what the early socialists had in mind when they used the word: such as, that Soviet Russia is a completely socialist country (much more so, for instance. than Sweden)---even though it denies almost all the values which Western Socialists have normally read into the word." Mr. Crosland, therefore, warns that it is unwise to identify the means with the end.

Whether Socialism is appropriate to Indian conditions is an issue on which it is impossible to secure agreement, especially when it forms the gospel of the party in power. But we may derive whatever comfort we can from the Prime Minister's categorical declaration that the socialism of India would be a wholly national product. In other words, it would be pragmatic. One practical way of giving effect to this assurance is that the Government should cease to make any more encroachments upon the private sector and help it in every possible way to enlarge the scope of its usefulness.

We will now turn our attention to the third topic of the discussion—the Constitution (Fourth Amendment) Act of 1955. The Constitution of India was drawn up and brought into force in January 1950 after a good deal of deliberation by the chosen representatives of the nation who were assisted by eminent Jurists in the country. It is indeed a noble document, which not only lays down the pattern of government for the country and enshrines the hopes and aspirations of its people, but also symbolises the stable and enduring character of our society. It is, of course, not suggested that like the laws of the Medes, the Constitution should remain unchanged for all time to come. No document intended to legislate for a living society aan remain static, but the frequency with which the Indian Constitution has been amended and the grounds on which this has been done have created doubts in the minds of thinking persons whether the value of the Constitution as a stabilising factor is being fully appreciated in this country.

The Constitution (Fourth Amendment) Act, 1955, provides a good example of the lack of such appreciation. Plainly, the object of the amendment is to deprive the citizen of his right to seek judicial review in the matter of compensation when his property is acquired or requisitioned by the State. That responsibility has now been conferred on the legislature which is untramrnelled in determining what quantum of compensation should be paid when a property is taken over. It is well-known that the doctrine of judicial review is the cornerstone of parliamentary democracy. So long as the judiciary

remains independent and is accessible to the aggrieved citizen, there is no fear of executive despotism.

As a result of the amendment, the people have no judicial redress even in a matter vitally affecting their property rights. It is, of course, probable that so long as a high-minded person like Mr. Nehru presides over the nation's destiny, property will not be taken over on unfair terms. In fact, both he and the Union Home Minister, Mr. Govind Ballabh Pant, have given categorical assurances to this effect. But what guarantee is there that considerations of fairplay will weigh with their successors, especially if the latter happen to be fire-eating radicals?

The disastrous consequences of restricting the jurisdiction of the judiciary and of weakening its power can be easily imagined, especially when the seats of authority are occupied by the opponents of moderation and of gradual and orderly progress. Such men would make no bones about jettisoning the very principle of compensation. In that event, the community would choose the shelter of the subterranean vaults for its hard-earned savings instead of using them for fertilising and enriching the national economy.

These-are not idle fears and are in fact supported by eminent jurists. To quote Mr. Patanjali Sastri, retired Chief Justice of India: "The constitutional protection of private property consists not in any prohibition of appropriation of private property, but in the insistence on the payment of adequate compensation. If the quantum of compensation is to be left to the discretion of the State and made non-justiciable, there will be little left of guaranteed protection of private property which will then be exposed to all sorts of experimental economic legislation according to the notions of social welfare of the politicians who may come into power from time to time. Such a situation must tend to spread a sense of insecurity in the minds of the people and give rise to conditions of economic instability with harmful consequences to investment of domestic and foreign capital". It is perhaps too much to expect the Government to resile from the position it has already taken up, but the least it can do is to create a firm precedent for its successors by paying generous compensation whenever property is acquired or requisitioned.

Fourthly, there is a growing tendency on the part of some of the Government leaders to make extravagant demands on behalf of hand and household industries and to hamper the growth of the organised sector. There is no doubt that in a country like India, which is burdened with a large population and which has to provide for about two million new entrants to the labour force every year, there is a good case for developing labour-intensive projects. Such industries should be given every legitimate help, including financial assistance. to outgrow their infirmities and to achieve technical efficiency so that within a measurable distance of time they might become solvent and self-supporting.

But there cannot he any valid excuse for curbing the growth of the organised sector or for imposing crippling burdens upon it. The cotton mill industry provides a glaring example of this indefensible policy. In order to encourage the decentralised sections, the mills are not allowed to increase their output in proportion to the growing demand for cloth. Both the Kanungo and Karve Committees, which reported in 1954 and 1955 respectively, have categorically recommended that all the additional cloth required during the Second Plan period should be reserved for production by the handlooms and the decentralised powerlooms. In its new textile policy, announced last June, the Government has chosen to maintain the status quo in so far as production of mill cloth for domestic consumption is concerned.

Despite generous help, the handloom sector has not been able to increase its output on the required scale. With mill production "stabilized" at a low level and with the volume of consumption steadily rising, a cloth crisis arose in the country in the latter part of 1956. The excise duty on mill cloth was further increased in a vain bid to redress the imbalance between supply and demand. This "remedial action" has in fact created new problems, for some of which no easy solutions can be found. The shoulders of neither the producer nor of the consumer are strong enough to bear the excise burden which has now reached the astounding figure of about Rs. 79 crores a year. Surely, it is not very logical to strive for a higher standard of living and at the same time forge severe deterrents to greater consumption.

The task of statesmanship, therefore, lies in hastening the removal of the present incompatibility between the organised sector and the small and cottage industries by modernising the latter's production techniques. So long as this is not done and so long as a vested interest is claimed in inefficiency and obscurantism, the hand and household industries will continue to be a drag on India's progress. The machine has come to stay and it is worse than useless to try to build up India's economy on the foundation of outmoded village crafts.

Before we proceed to deal with the last item in the present discussion, namely, the Government's fiscal policy, it would be pertinent to recall here some of the factors that have discouraged investment in the private sector. Attention has already been drawn in the earlier paragraphs to the past and present achievements of free enterprise and to its great capacity to contribute to the enrichment and diversification of the national economy in the future. Indeed, its record would have been even more impressive if the Government's attitude towards it had been more liberal. It is unnecessary to recall here the trials and tribulations of free enterprise, recorded at length by the Committee on Finance for the Private Sector in its Report of 1954, but a brief reference to some of them would be worthwhile.

The series of restrictive measures, including the Industries (Development and Regulation) Act, which the Government has adopted for some years past, have encouraged the belief in the public mind that free enterprise is incapable of functioning for the public good unless strict surveillance is exercised over it. It is readily conceded that in a scheme of planned development, where the available resources are inadequate, the State has inevitably to take the lead in establishing priorities in the matter of investment and the setting up of new industries. But minute and vexatious interference even in the day-to-day working of the industries is hardly compatible with the Government's responsibility for ensuring planned progress.

Another potent cause for producing an adverse effect on the psychology of the entrepreneurs is the stringency of the new Companies Act. The amended legislation has put a limit to the existence of the managing agency system, despite the fact that managing agencies have played an outstanding part in establishing joint stock enterprise in this country and in nurturing it to prosperity. Moreover, the severe restrictions on inter-company investment will deprive private enterprise of the means for venturing into new fields of industrial activity, thereby retarding the progress of the country as a whole. It is realised that some of the managing agencies have been guilty of grave irregularities and that the system of interlocking has bred certain evils. But the Government is strong enough to deal with individual cases without the necessity of arming itself with Draconian powers. Indeed, there is little justification for looking upon the entire business community with suspicion on account of the misbehaviour of *a* few.

The third reason why the investor is chary of risking his capital is the growing complexity of labour legislation and the costliness of labour. Inevitably, the responsibilities of the working class will increase in the years to come as the country becomes more and more industrialised. The worker is certainly entitled to emoluments and amenities in proportion to his usefulness. No enlightened employer would dispute this simple fact. But the various new demands which are being put forward on behalf of labour do not take into account the need for achieving higher productivity.

The cotton mill industry provides a good example of how the gains of the textile worker have been substantial in recent years. Illustrative of the Government's solicitude for him is the announcement by the Union Ministry of Labour on 25th January 1957 that a Central Wage Board would be set up for the cotton textile industry. The press note adds that similar Wage Boards would be established for other industries also after some experience has been gained with the working of the Wage Board for the textile industry. But, apart from occasional exhortations, we search in vain for any decree or directive calling on industrial labour to show greater diligence and earnestness in the performance of its duties. The following observations of the Committee on Finance for the Private Sector are noteworthy: "Apart from the purely monetary burden of labour legislation and Awards, the confusion prevailing about possible liability to labour charges contributes to an unwillingness to embark on new projects involving employment of additional workers." The Committee goes on to say that "the inflexibility of present arrangements also encourages indiscipline and inefficiency amongst employees, since these cannot be remedied through lay-off of workers, except after reference to a Tribunal."

Lastly, some of the more exuberant members of the ruling party have made no bones about making a short meal of private enterprise if they could have their own way. It is possible that these men will never be able to get an opportunity to give effect to their threat, but the fact that they are capable of influencing the minds of the policy-makers cannot be lost sight of. Surely, the performance of such politicians cannot be conducive to an improvement in the climate for private investment or to the strengthening of public confidence in the future of free enterprise in this country.

And now to the last point in the present discussion, namely, the fiscal policy of the Government of India. Since his assumption of office last year, the new Union Finance Minister has been assiduously propagating the view that the present tax structure of the country should be made more flexible in order to enable the Government to raise larger funds for the Second Plan. As a first step in that direction, he suddenly and unconventionally brought forward on 30th November 1956 far-reaching taxation proposals and defended his action in the Lok Sabha on 12th December by declaring in Churchillian language: "I will offer no apologies for coming back to the House with perhaps new measures not only on February 28 or February 29, but twice, thrice, four times or five times a year, in season and out of season, for more revenues and for more powers in order to see that this Plan is fulfilled."

If this forthright statement is any guide, even the newly introduced far-reaching measures like the capital gains tax, tax on dividends and compulsory deposit of company savings with the Government constitute a mere prelude to mightier things to come. The Finance Minister concedes that the income from the capital gains tax might not be very considerable" and yet he insists that it has come to stay. This is not a new impost and was in fact abolished only in 1949. Its abolition was based on sound reasons and was endorsed by the Taxation Enquiry Commission which declared that the tax had an "adverse psychological effect on investment and hampered the free movement of stocks and shares". The reasons then given are very much valid today.

Similarly, it is impossible to defend the scheme of graduated increase in the rates of super-tax payable by companies declaring dividends in excess of six percent of their paid-up capital. It has been urged in support of the impost that it would serve the useful purpose of conserving and augmenting company resources which could be used with great advantage for fulfilling the targets of the Plan. This may be true, but a penal tax on dividends inevitably depresses the value of shares, thereby undermining the confidence of the investing public. Under such conditions, it would be extremely difficult to find the necessary finance for new ventures. The Government is rightly exercised over the problem of unemployment whose solution must, in the ultimate analysis, depend upon the expansion of the economy. It is too much to expect any such development if the investor is offered an inadequate return on his capital.

Thirdly, the declared object of the Government in bringing forward the scheme of compuisory deposits is to make more resources available far financing the Plan. An official spokesman is reported to have estimated that deposits of current undistributed corporate profits alone would amount from Rs. 25 crores to Rs. 30 crores. The deposits scheme would certainly have been most welcome if the earnings of companies could leave an appreciable surplus after meeting all their requirements. A large number of units in the corporate sector do not enjoy this happy position. Most of them have to draw their working capital either from their own reserves or borrow it from outside.

The situation has been worsened by the present stringency in the money market. As can be seen from the low ratio of the cash balances of the scheduled banks to their total liabilities, the credit structure in the country has been going through a severe strain and, under such circumstances, it is useless for companies in need of funds to expect any accommodation on the required scale either from banks or from other credit institutions. There is, therefore, no wisdom in calling upon the companies to surrender their own savings, even when they are most needed, and drive them from pillar to post in quest of loans which may become available to them only at a high rate of interest. Indeed, in the case of some of them, a situation may arise when they will be able to comply with the demand for compulsory deposits only by borrowing. If they do not choose to do so, they must be prepared to forego the tax savings that would have accrued to them in the shape of depreciation allowances and development rebate.

Even from this cursory appraisal of the Government's taxation policy, it is evident that free enterprise will find it increasingly difficult to secure the necessary funds for enlarging its activities. Besides the growing tax burden, the monies that would normally have become available to the enterpriser are being diverted in an increasing volume to finance projects in the public sector. Borrowings from the public in the shape of market loans and small savings in the second plan period have been put at the high figure of Rs. 1,200 crores. In spite of these

enormous mopping up operations, the private sector is called upon to invest, as much as Rs. 2,400 crores in the economy during the same period. Free enterprise will perhaps be able to raise this money and even more if the sources accessible to it are not allowed to dry up one after another.

Notwithstanding the Finance Minister's views to the contrary, there is an obvious need for a radical revision of the existing tax policy which drains away at its source the investment capital needed to expand existing industries and to create new enterprises and thus make possible provision of more employment and an abundant supply of good quality goods at economic prices. It is well to remember that heavy tax burdens tend to raise the cost of enterprise.

This somewhat detailed study of the problems of free enterprise in India has been made in order to show with the aid of factual evidence the contradictions in the Government's policy and attitude towards the private sector. And yet there need be no such inconsistencies, for even in a socialistic pattern of society there is much scope for private enterprise to function effectively. The reader is invited to ponder over the following passage derived from an unimpeachable Socialist source: "The private sector of a socialist economy is not there merely on sufference, to be tolerated only on grounds of political expediency, with the Sword of Damocles hanging over it in perpetual threat. On the contrary, it has a legitimate and indeed a necessary function to perform. Within the limits of equality, there must be opportunities for people to spend as they wish, to own, to initiate and experiment; they must be able to form associations to further their economic interests. In all these areas, the individual must have a chance to act without waiting for the approval of the state." (Twentieth **Century Socialism,** a study prepared by the Socialist Union of Britain).

This is precisely the reason why thinking men are anxious that the roots of free enterprise should be strengthened in this country. Indeed, the object of a mixed economy is not only to ensure the material progress of the country through the joint labours of public and private enterprise, but also to preserve the basic principles of democracy which can have no place in a country whose economy is dominated by the State. This is because the enterprising class does not consist merely of a handful of top men who control "big business"; in fact, it claims the allegiance of a considerable number of people, including the man behind the plough, the craftsman in his humble home-stead and the village trader, whose activities contribute to the progress and prosperity of the nation. All these men have a vital stake in democracy.

It is, however, not suggested that the lapses of free enterprise should be condoned. On the contrary, all cases of misbehaviour should be brought to light and firmly dealt with. But, while remedial action, wherever called for, is imperative, the tendency to run down and revile free enterprise as a whole should be strongly deprecated. Decades ago, Professor Westlake, in his Collected Papers on international law, described the relations between the paramount power and the Indian States in a memorable passage. The analogy may not be quite appropriate when applied to the relations between public and private enterprise, but the words are. We may, therefore, conclude this study with the Professor's eloquent words: "There is good reason to believe that both by them and us a comradeship in difficulty and danger

is indeed felt, such a comradeship as engages the strenuous and loyal exertions of a ship's crew under the categorical imperative of the captain". What worthier cause could there be for forging the bonds of comradeship between public and private enterprise than that of accepting together the challenge posed by poverty and suffering?

Free Enterprise Is Your Enterprise: Safeguard It.

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"We want to produce the material goods of the world and to have a high standard of living, but not at the expense of the spirit of man, not at the expense of his creative energy, not at the expense of his adventurous spirit, not at the expense of all those fine things of life which have ennobled man throughout the ages."

Jawaharlal Nehru

Prime Minister of India