

**THE FUTURE OF FREE ENTERPRISE
IN INDIA**

M. R. Masani, M.P.



FORUM OF FREE ENTERPRISE
SOHRAB HOUSE, 235, Dr. D. N. ROAD, BOMBAY - I

THE FUTURE OF FREE ENTERPRISE IN INDIA

M. R. MASANI, M.P.

One assumes that the environment in which one functions is there and will always be there. One never examines or questions it. It is like the law of nature—we live in a certain physical environment, we live in a certain organisational environment and a joint-stock company in which you take a job and move from one to the other, changing your job and your employer appears to be more or less part of the laws of economic nature. Therefore, one assumes that it has been there, and it will be there.

The system of joint-stock enterprise or of free enterprise is very much in question in the present situation in India. It is under a very serious challenge not in regard to any details, but to its very existence. I sat through a week of discussions in Parliament on the Companies Amendment Bill. One of the impressions I gathered was that the Government on one side and a fair section of members on the other looked upon a joint-stock company as some kind of necessary evil to be tolerated for the time being. It was not, as it is in most countries of the world, in America, Germany, Sweden, Japan or England, a very desirable form of organisation where small and big people all come together to pool their resources through limited liability in order to produce the essential goods and services required by society. There, while it is regulated in regard to anti-social

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

—Eugene Black
President, World Bank

practices, it is looked upon as a good thing and is one of the things that will always be there. But in this debate in Parliament, the sentiment seemed to be to a large extent, on the Government side particularly, that it was a pity that it had to be there and that you could not wipe it out over-night because there would be chaos and production would be affected: it can be replaced in due course by the State Corporations and Cooperative Societies. The fact that this is a Cooperative Society refined by a century of experience—a co-operative society of investors—that was never even once thought about.

I am not suggesting that if there is a mixed economy where state enterprise supplements and complements the efforts of private enterprise to deliver the goods, there would be any question or challenge to the free enterprise of the joint stock system. That is the legitimate position to take in a country such as ours that we need State enterprise, may be in certain fields of endeavour, to supplement private enterprise. If both work freely in free competition on equal terms without discrimination, without bias, then no one would be very much bothered. But it is not the mixed economy that is threatening free enterprise; it is the trend towards jettisoning the mixed economy increasingly in favour of what may be called monopoly State Capitalism of the Soviet/Chinese kind. The essence of that system would be that increasingly, in one field after another, not only that the State enters but the State puts out of business anyone else who happens to be there and asserts a monopoly or a near-monopoly in that particular sphere.

Today, that position is not by any means universal. It exists in some spheres and it does not exist in others. Take, for example, steel where there are two private enterprises and a government company,—the Hindustan Steel Ltd. with three plants and a fourth one coming up. If this is maintained over the next

20 or 30 years, then it would be good mixed economy in practice, provided the government does not use its police powers to tip the scales against the two private operating companies or does not clamp down on them a kind of Steel Board which will take away all their powers and leave them defunctionalised units. So, for the present in steel, in coal and in oil, there is a mixed economy. It is a good thing that two sectors should try to serve the wants of the community and the consumer has the freedom of choice to decide what he wants to buy and what he does not want to buy. Of course, on the other hand, if the Minister travels down from Delhi to bully the BEST in Bombay into buying Russian oil instead of any other oil, then the mixed economy comes to an end at that point, because then political power is used to bolster one competitor against another competitor. We saw that happening when the BEST, carrying on an enterprise purely on business grounds, said that it did not want Soviet oil. The Minister came down and wielded a big stick. I do not know what he said but in the end the Undertaking retracted and said it would buy Soviet oil. This is what I am referring to as a threat to the mixed economy.

In Life Insurance there is a State monopoly—not only is the Government the insurer but nobody else may insure anyone else's life. There is no question of morality or principle on which this can be justified. Monopolies are a bad thing. The State Trading Corporation is in-between. It is ostensibly not a monopoly. In practice, it asserts a kind of monopoly which is not statutory yet, but which will become a monopoly even if the law does not support it. Recently I received a couple of letters from a Bangalore business man. He points out that while in 1952 the export of iron ore from Goa on the one hand and from India on the other was about equal, as a result of the very inefficient monopoly of the STC in sending iron ore abroad and putting everyone else out of business,

today Goa leads India by a very handsome margin. Besides, the effect of the State trading monopoly is to deprive India of its export in iron ore. He points out that till the State Trading Corporation entered the*field of iron ore export and manganese export, the Railway supplied them with more or less equal number of wagons. Manganese gets more foreign exchange per ton than iron ore but, because the State Trading Corporation is interested in iron ore export and not so much in manganese export, which in that part of the country is still in the hands of private companies, the Railway Board has now arbitrarily given iron ore priority over manganese and it is only if the STC does not require the wagons for iron ore then the manganese ore exporter can export his manganese ore which can get India many times more foreign exchange than iron ore. So one State monopoly uses another State monopoly to thwart or throttle the other business which is still not monopolised. We are now at a phase when this trend, if not checked, will lead the mixed economy to evaporate in favour of monopoly State Capitalism.

I shall give two major reasons why it is **important** that free enterprise remains a major element in our economic life. My first argument is purely on economic grounds that free enterprise is the more productive way of life. It delivers the goods more than any other system. So far as industry is concerned, we know the facts. There are so many fields where we can test this. Mr. Graham Hutton, the British Liberal writer, gave a good analogy. He says that Government, when it enters the field of production, is like a dog in the barn yard—it can't lay eggs itself and it stops the hens from laying eggs. This experience of inefficiency of State enterprise in industry is making countries, even Communist countries like Yugoslavia and for a little while Poland, try to edge away from the State capitalist system. The Yugoslavs have invented a theory of workers' control

in order to end what they call State Capitalism of the Soviet kind. They do not admit that Russia is communist or socialist in any way. They say that it is a distortion of Marxism and Socialism. Russia is state capitalist in a vicious kind of way, and so the Yugoslav communists are trying to get away from the Statist pattern by ostensibly giving the factory back to the workers. That is partly theoretical, but one thing happens—the enterprise becomes more autonomous and the laws of competition come into existence. I have heard leading Yugoslav Communists tell me in 1955, "We must get back to the laws of the market", and they are quite logical and ruthless about it. If you ask them what happens if a shoe factory cannot sell its shoes, because either the price is high or the products are not acceptable; they say that the factory must shut down. It must go out of competition because the consumer does not want their products. Consumer preference comes back and not the **dictat** of the Planning Commission. If you ask what happens to the workers, they say they are unemployed, and they will have to find other jobs. The managers are punished by not being allowed to be managers any more for some gears and being sent back to the bench because they have made a hash of their enterprise. So they get back to the laws of the market in a rather downright and crude way even in a communist economy the moment it feels able to edge away from the unproductive system of production that State capitalism always is.

Even on the land, it is very clear that only private enterprise delivers the goods and that wherever the Government tries to collectivise the land and farm it under State control, the yield drops. The smaller the farm, the more productivity per acre and higher yield per acre, contrary to fashionable thinking in Delhi. I was very amused to see some time ago with a great sense of discovery the Delhi papers announced that the larger the farm the less the production, as

if some new law of nature had been discovered. This was based on a study by a Government official, who investigated on behalf of the Institute of Agricultural Research and the Ministry of Agriculture have now published a monograph which contradicts completely everything that the Prime Minister said in Parliament during our big debates on Co-operative Farming.

This is a historical and universal phenomenon. In the U.S.S.R., which has the system of highly mechanised collective farms, the weekly yield is 9.3 quintals per hectare; U.S.A., which has private enterprise on big farms, also mechanised, 12.2 quintals per hectare. In Britain where the farms are very much smaller and private, it is 28.5 quintals. In Denmark where the farms are even smaller and private, 34.4 quintals, and in Japan 22.6 where the farms are only 1/2 acre or 2 acres, much smaller than in India. In other words, Japan, with farms much smaller than ours, produces twice as much wheat per hectare as the U.S.A. and two and a half times as much as the U.S.S.R. In the case of rice, you will find the same story — U.S.S.R., 25 quintals per hectare, U.S.A., 28.3 quintals and Japan and Formosa 48.5 quintals per hectare.

My other reason for saying that the continuance of free enterprise is essential or desirable is its political and social effects. Unless there is a large measure of free enterprise in economic life, we cannot maintain a free society; we cannot maintain a democratic constitution or Government. To start with, there is no known example in the world of a State owning everything—land, factories and business—and yet having a Parliamentary or any other kind of democracy with individual liberty. There is no known example yet. Maybe, thousands of years from now, such an example might evolve, but at present, human beings as they are, if there is no private enterprise

there can be no political democracy and individual liberty.

Apart from the fact that it has not yet been done, which is pretty conclusive, logically also it must be so. Let us start by saying that unless we can have freedom of speech and expression and opposition in a society, we cannot have political democracy, democratic government and individual liberty. The need for an opposition therefore is at the core of a democratic system; if we cannot tolerate opposition, then obviously the Government becomes permanent, and it cannot be changed or replaced by the will of the people.

There cannot be a free opposition or effective opposition without free enterprise. Let us consider who will provide the opposition. In a system of society where everyone is either an officer or an employee of Government, as would be the case in Russia and China today—more or less everyone is an employee of government—where does the opposition come from? Obviously, a civil servant cannot start an opposition and get elected to Parliament in the face of a Government that owns everything. So since one cannot go *into* opposition without losing his job and ration card, one does not go into opposition. Therefore, there is no opposition. Trotsky, who was a communist, till he was murdered by Stalin, in his later years realised rather belatedly the nature of this truth when he said that in place of the old slogan "he who does not work neither shall he eat", the new slogan in a communist society is "he who does not obey, neither shall he eat". He came to the conclusion that this was the nature of State ownership. When the State became the universal employer, then obedience to the universal employer, the Government, was the test of whether one earned a living and could eat.

The only classes which can possibly provide opposition or the basis of opposition in society are what

an Italian political thinker in the second half of the 19th century called "autonomous social forces". The autonomous social forces are the businessmen, the factory owners, the shop keepers, the peasants who own the land, the artisans who create with their hands, the self-employed people, the professionals, (the lawyers, the doctors, the architects, the auditors etc.). These are "the autonomous social forces", which means that they stand on their own legs. They are not beholden to the government of the day for their bread and butter. The professional man, the businessman in a free economy, the landed peasant, the artisan and the self-employed man stand on their own legs and they can say to Government that they do not agree. They are the classes who can possibly go into opposition. They are the classes who can maintain a free press. They are the classes who can have any kind of voluntary society or organisation which is not dependent on Government patronage. Abolish these classes by nationalisation of private property and land and industry, and you will destroy every autonomous social force. Then everyone is at the mercy of the State. That is why a command economy replaces not only the ballot box of the market place but a totalitarian Government replaces a democratic government provided by the Constitution.

These are two very basic reasons why everyone who believes in individual liberty and democratic government or the Constitution of Indian Republic cannot but come to the conclusion that the maintenance of free enterprise in agriculture and industry is a sine qua non of the maintenance of the free Constitution of India.

How is this to be done? What does one do about it? Three things need to be done in order to help joint-stock enterprise and free economy generally to survive and to thrive, to win this battle and to defeat this challenge. The first thing is that Indian busi-

I
ness today needs to put its house in order. It is not enough in India to say that a few black sheep should not be allowed to give the whole class or the whole system a bad name. When I say that sometimes, my socialist friends say: "But how many black sheep are there in the fold and how many white sheep are there?" The suggestion is that the black sheep predominate and, therefore, they stop being the exception that proves the rule but becomes the rule itself. I do not know how statistically one can say how many businesses are good, how many are middling and how many are bad. We all may have our different impressions. Indian public opinion has been sold the story that Indian enterprise is by and large crooked. The whole Companies Amendment Bill was based on the thesis that every businessman is a crook. There was the assumption that he was a crook, but if he wasn't then he must go to the Government to get permission for doing what he wanted to do. In one case I said to the Minister: "Now this is very interesting, when we say there may be a crook in your administration, you throw up your hands in horror and say 'how dare you say that the poor honest officials sitting in the gallery could be crooks?' but every time a business man is mentioned you say that you must assume, that the fellow is crooked. Now let us remember that the gentlemen in the gallery have brothers in business, and vice versa. Is it suggested that the moment one brother goes into service and the other brother goes into industry, the brother in service becomes honest and the brother in industry becomes a crook? They are of the same social class, and we know the families are divided on both sides of the fence. But the whole thinking of socialists is that everyone in office is honest — everyone in business is crooked."

There must be some reason for this. Partly the reason is the Prime Minister's propaganda and a certain amount of whipping up of hysteria and hatred;

but what is it based on? If business had done a really good job, I do not think this could be possible—after all, it is not possible in other countries. Indian business must put its house in order. To change the metaphor, I would say: let them act as Trustees for society, for the community. Gandhiji tried to sell that idea well ahead of the times by pleading that the Indian industrialists and business people should behave as trustees on behalf of the community. That did not mean that their wealth was to be taken away; they remained in possession of their wealth but they were to use that wealth with a social purpose. Dr. Ludwig Erhard, Champion of free enterprise, has proved in practice that this works better than any other system in West Germany. He calls it Social Enterprise. In his book "Prosperity Through Competition", he insists that private enterprise must be socially orientated, must have a social purpose. That does not mean that you do not spend your money or use it as you like or invest it as you like, but it does mean that in the choice that you make about the use of your resources, you are not animated purely by personal considerations, but a certain amount of awareness of your social obligations, that you consider also what is good for the community as well as also that you consider what is good for yourself.

The Forum of Free Enterprise has a Code of Conduct which is quite impressive. It lays down how should the business man behave vis-a-vis the consumer, the investor, employees, the community and the Government. A good product at a fair price, a fair deal and a fair wage to labour, honest payment of taxes and obedience to laws—these are some of the elements that go into this Code. At a meeting of Sarvodaya workers called by my friend, Jaya Prakash Narayan, Mr. Dhebar, Mr. Shankar Rao Deo and half a dozen other eminent Gandhians were present. They were trying to define what Trusteeship could mean in practice. I tried to help out by reading from the

Code without saying what it was to ask if this is what they understood by the application of trusteeship in practice. And they all said that it was beautifully put. Then I produced copies of the Code of Conduct of the Forum and passed it round the table and told them that it was from that "horrible reactionary organisation" which they have imagined the Forum of Free Enterprise to be!

The second thing that needs doing, apart from business putting its house in order, is to make it easier for the class of entrepreneurs to grow. India has a bigger bourgeoisie and a bigger entrepreneurial class with a longer background than any other country in Asia, barring Japan and may be the Philippines. We are relatively in a better position. We are not like countries where the middle class simply does not exist. We are, therefore, in a very much better social position than most countries in Asia to make Free Enterprise win. But even so, the class needs to grow. And the more small entrepreneurs there are, the safer the system of Free Enterprise will be. For instance, I do not believe that Mr. Nehru will succeed in his joint-farming slogans because there are 52% of the Indian people who own land, and 52% of the Indian people have lots of votes. It can be said that because the business class is small, the business class can be isolated and destroyed, because it is easy to focus the envy of the people on this rather well-to-do and smaller class. One cannot do that to the landed peasants, who after all, are half the Indian people. To the extent that the business class grows in size and develops a lower middle class element of the small entrepreneur, attacks on free enterprise will be dented because of the internal resistance within the ruling party and the fear of losing votes and losing power. This is something which Indian business should consider as its job. What do Big Business houses do to help the small man up? I think that Indian big businessmen should

consider what they can do for small business. It could be considered an extension of the principle of Trusteeship—to help other people up, to do the job of, Free Enterprise and to prove to the country that it can deliver the goods.

The third thing that has to be done is to stand up for that particular way of life. So far it has been admitted that the case of Free Enterprise in India has gone by default. Till the Forum of Free Enterprise was started in 1956, there was no organised effort to put across that point of view. Everyone was a defeatist saying it couldn't be done; socialism was too popular, too strong. Even today, although something has been done, I am afraid the large majority of Indian businessmen do not seem to be able to show that they are prepared to stand up and be counted. They are not prepared to raise their hands when the question is put in public: "Who is for Free Enterprise?" Some of them talk socialism, some of them evade the issue, but the fact remains that those who are prepared to stand up and be counted are few. This again came out in the Companies Bill debate. Why was it possible for the ruling Party to resist the proposition that corporate contributions from joint-stock enterprise should not be given to political parties? Obviously, because they know that the larger number of those in charge of corporate enterprises will give their funds to them and not to any other party. They say:—look—they are not guiding us, our policy remains anti-business and still they give money to us. To that the obvious answer is: "Nothing of the kind—it's true they don't influence your policy, but they do influence the administration of that policy in day-to-day implementation. What they are giving money for is not to make you a non-socialist party, but to get their licences and their permits and their sanctions. And that is why they are giving you their money because they want your signatures on that particular proposition. The only thing they are in-

terested in is that they want the quick rupee. They are not interested in what you do for Free Enterprise". That is a sound answer, but it does not reflect very well on a large part of the business class. It does not reflect well on either party—he who gives or he who takes. This is not a problem of India alone. There was a time in America, it seems, when business was in as bad an odour and as much on the defensive as it is in India today. Walter Lippmann refers to the state of United States business in 1934 — the years after the Depression, the years of Roosevelt and the New Deal, as follows:—"In the past five years i.e., from 1929 (The Depression), the industrial and financial leaders of America have fallen from one of the highest positions of influence and power that they ever occupied in our history to one of the lowest." This remained for quite some years. It is no longer so because American business had the gumption, the courage and the enterprise to take up the challenge, to try and reverse the trend.

Interest in public affairs is a very important extra-curricular activity of American Managements today.

GEC and Ford have elaborate departments exclusively concerned with Government and political affairs and they have made such a success of that that an interesting article in "Fortune" magazine reports that they are besieged by visiting delegations and teams from other companies to learn what they do so that they can apply it in their own companies. There are other companies who also sponsor by-partisan training courses in the art of politics for middle management. They do not train people either to be Republicans or Democrats — they train people to be good citizens, and to pull their weight whatever party they may feel like joining.

This has been called the "Business in Politics Movement", and it is growing like grass fire, according to "Fortune", in the ranks of the more enlightened section of American business. What is done in many companies is that groups of 12 to 20 supervisors and junior executives — middle management — spend a couple of hours every week for ten weeks or so, sometimes on the companies' time and sometimes on their own time. They study the working and the progress of political parties, they study how campaigns are run, how party finance is raised, and they invite as guest lecturers speakers from both sides to supplement the domestic teaching from within their own staff. Apart from these seminars, they have field work. They train their executives to write letters to Congressmen on any issue that interests them and they train them to go round door to door registering people as voters — putting their names on the electoral rolls, as a community service performed for that particular town or neighbourhood.

The United States Chamber of Commerce has a practical politics course which is used by 162 individual firms and 479 local chambers; 20,000 executives have by now gone through the United States Chamber of Commerce course in practical politics. The National Association of Management course is practised by 100 companies and has been gone through by 5,000 people. There are courses for executives at the American universities: over 1,000 executives from more than 500 companies have gone through these courses in 1956. In fact, this is one of many ways in which letting the case go by default can be put right.

Many American corporations encourage their executives to stand for municipal bodies, to stand for Congress, and they feel it is an honour and a privilege to have among them people who are able thus to establish themselves in the public life of the country. And since they got two broad-based Democratic

parties, neither of which is hostile to business as such, the question of taking sides does not arise. All this will need a lot of thinking out and adapting to our conditions. The fact remains that very little has been thought of in this regard. It has been considered for some reason that business men should not take part in politics, should have no interest in politics, and should beg the ruling party for the time being to get what they want out of them and carry on. Now that appears not only to be a selfish point of view, but a very shortsighted one. It is not even intelligently selfish, because this class only worries about the quick rupee and this year's licence. It is not a class that either commands respect or will survive in the long run. Fundamental thinking and urgent action are required by free enterprise because that is essential for its very survival and with it of democracy and individual liberty in India.

APPENDIX

THE PHILOSOPHY OF JOINT-STOCK ENTERPRISE

Joint-stock enterprise, which is the modern twentieth century way of industrial organisation, should be allowed to thrive for its own benefit and for the benefit of the country. How is this instrument, through which one nation of the world after another has achieved prosperity and social justice in increasing measure, to be harnessed to the needs of our country? How is this great vitality and force to be let loose so that it may produce the largest volume of goods and services needed for this country?

What is joint-stock enterprise? Our Prime Minister and many leaders of Government talk day in and day out of co-operation. If they were sincere in their desire to help all kinds of genuine co-operation, they would be the best champions of joint-stock enterprise because joint-stock enterprise is the application of the principle of co-operation to industry and business.

Joint-stock enterprise is the coming together of small and big people scattered throughout the country in different walks of life with different ideologies because they believe that there is a demand or a want for a certain commodity or service on the part of the people of this country and that that want should be met. And, that in meeting that want, they will make a profit as a result of their efficiently meeting that want. That is the application of the principle of co-operation to business or industry. And, if there is one kind of co-operation that is successful or deserving of support in India, along with others, it is joint-stock enterprise.

The philosophy is that the shareholders of a company are fullgrown citizens of our country knowing what they are about, that they are the best judges of their own interests and not a set of bureaucrats or politicians in office and that, therefore, control of their activities under Company Law should be minimum control, as little control as possible and as much freedom for them to function as is possible.

All the joint-stock companies are the property of their owners, whether their capital is subscribed in the market or whether five people get together in private. The principle is that it is no business of the bureaucracy or the Minister of the day to sit in judgment on whether the owners of a certain property — farm or shop or factory — administer that

property by prudent practices or not. Every grown-up citizen in a democracy must take on his own shoulders that amount of responsibility. Abraham Lincoln spoke a hundred years ago on this and said that the Government cannot do for the people what the people must do for themselves; he enunciated a truth a hundred years ago on what sound administration should do.

We are talking about grown-up people who invest their money in a company, public or private. They must be allowed to administer the property according to their conception of prudence. If they incur a loss, it is their loss. The whole essence of joint-stock enterprise is that People must learn to risk their capital to make a profit or to make a loss. It is not part of the Government's business to stop people from making a loss because that would kill and cut at the root of the principle of risk-taking, which is the essence of free enterprise. Therefore, if we want joint-stock enterprises to survive in this country, we cannot do it under the tutelage of a set of bureaucrats who know nothing about business.

This strikes at the root of the safeguards given under our Constitution. Either we stand by the Constitution and say that private property is sacred and belongs to the person concerned and he can do what he likes with it or we say that the Government will sit in judgment through our bureaucracy on every one of us and see whether or how we spend the Rs. 10 in our pocket, and whether it is right or wrong. This is the thin end of the totalitarian wedge which lays down the principle that the Government knows better what you should be doing with your money. It is a highly objectionable principle in any free society.

The second test is that the Government must be satisfied that a company is being managed in a manner which is likely to cause serious injury or damage

to the interests of the trade, industry or business to which it pertains. In other words. I may be running my business very efficiently. But if it hurts somebody else, on behalf of somebody else who cannot face fair competition, you go and put me in fetters. The laws of competition are the best correctives to anti-social behaviour and to unproductive enterprise. It is the law of the market, the law of supply and demand, the laws of the free competitive society that are a sovereign check on unproductive enterprises and anti-social practices.

When a man does not run his business in a prudent way, he has to shut it down and somebody more effective who can serve the country better takes his place. That is how the country advances by eliminating the incompetent and corrupt and by supporting and rewarding those who are enterprising and productive. Once you kill this competition, you are heading for such a state capitalist system as Mr. Djilas, the communist of Yugoslavia, has so well described in his book—*The New Class*—where a more exploitative and oppressive class of State capitalists replace those who they claimed were exploiters themselves.

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

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

—A. D. Shroff

**HAVE YOU JOINED
THE FORUM?**

Annual Membership Fee is Rs. 10/-

Bona fide students can get our book-
lets for a year by becoming Student

Associates on payment of Rs. 2/-.

Published by M. R. Pai for the Forum of Free Enterprise,
235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by
Michael Andrades at the Bombay Chronicle Press, Horniman
Circle, Bombay-1.