

**PROSPERITY BEYOND OUR CITIES  
BY SPREADING ENTERPRISE**

**R. Gopalakrishnan**



**FORUM**  
of Free Enterprise

## INTRODUCTION

The Memorial Lecture delivered by Mr. R. Gopalakrishnan was both lively and lucid. The subject selected "Prosperity Beyond Our Cities by Spreading Enterprise" was relevant to the contemporary socio economic scene.

While the macro economic growth in the country for the last five years has been spectacular and unprecedented, it has by and far covered only the urban population staying in the major cities. The speaker rightly referred to the state of the economy as it touches the lives of about 60% of our population, living in rural areas and smaller towns, which he aptly described as "Little India". With slides and clips he graphically brought home the ground realities backed by his live experience of extensively touring Little India for three decades.

The thrust of Mr. Gopalakrishnan's presentation was on how decentralization and empowerment of the people in our villages and smaller towns would release the latent energies of the people for active participation in their socio-economic development. He gave a fine historical backdrop of how Indians had displayed considerable initiative and enterprise, between the 17<sup>th</sup> and 19<sup>th</sup> centuries, when India was in the forefront of Industrial prowess and foreign trade.

The speaker made a fervent plea for liberating Little India by empowering the people and promoting more local governments. According to him this was the only way to spread prosperity to larger sections of our population who are currently stifled by bureaucratic regulation.

The poor state of fiscal and social infrastructure in the vast hinterland was underlined. To ensure sustained overall

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

- **A. D. Shroff**  
1899-1965  
Founder-President  
Forum of Free Enterprise

development "Little India" has to be brought into the mainstream. The Government alone has not been and will not be up to the task and hence corporates and NGOs have to participate in a larger measure than hitherto.

Mr. Gopalakrishnan cited some fine examples of what enlightened corporates have achieved through local initiatives in providing better educational facilities, improved infrastructure especially power, and most importantly instilling confidence in these communities of what they could do for themselves.

The content of the Memorial talk is indeed stimulating and has been reproduced in this booklet for reflection and action among concerned citizens, planners, bureaucrats and corporates.

We are grateful to Canara Bank, particularly its Chairman, Mr. M.B.N. Rao, for the support extended by way of sponsorship of the Lecture and this booklet.

**Minoo R. Shroff**  
*President*

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Forum of Free Enterprise

## PROSPERITY BEYOND OUR CITIES BY SPREADING ENTERPRISE

**R. Gopalakrishnan\***

I am honored to deliver this 41<sup>st</sup> lecture in the memory of Ardeshir Darabshaw *Shroff*, who lived from 1899 till 1965.

At memorial lectures, a few words are said about the 'honored person and then the speaker proceeds to develop his chosen subject. I wish to recall AD Shroff's thoughts in detail for two reasons: first, his ideas have influenced the choice of my subject and second, they have deep significance for the future of India. It is quite remarkable that his ideas have so much relevance, much after his time.

Shroff was a director of Tata Sons from 1940 until 1960. It seems that he was actively considered for appointment as the Finance Minister of India in the 1950s, but never became the FM<sup>1</sup>. Some decades later, another Tata director, Nani Palkhivala, was referred to as 'the Finance Minister India never had'.

Lest the audience get the impression that Tata directors routinely miss out on such opportunities. I should clarify that two Tata directors did become Finance Ministers soon after independence - Ghulam Mohammed in Pakistan and John Mathai in India!

During the 1930s, despite the Governor's support, Shroff had been passed over for the post of Deputy Governor of the RBI. Shroff wrote to the governor, "I am unfortunately too conscious of the fact that the views I have expressed on public matters

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\* The author is Executive Director, Tata Sons Ltd. The text is based on the 41<sup>st</sup> A D Shroff Memorial Lecture delivered in Mumbai on 12<sup>th</sup> October 2007 under the auspices of the Forum. The Lecture was sponsored by Canara Bank.

cannot be acceptable to the Government, but whatsoever others may think of it, frankly speaking, it does not matter two brass buttons to me. I have so far not sought any patronage from government officials nor do I intend to."

Shroff was uniquely outspoken. He was unique in two other ways: he was a financial genius, and he was also entrepreneurial.

In days when capital was really very scarce, he could raise money 'from nowhere.' Further he helped to promote businesses even outside of Tata, based on the entrepreneur's project and managerial capabilities e.g. National Rayon, South India Shipping and Simplex Mills to name a few.

Within Tata too, in the decade after he joined, 'the Firm', as it was then called, saw tremendous growth through the setting-up or acquisition of companies-Tatz Chemicals, Nelco, Investment Corporation of India and Forbes, Forbes and Campbell.

Two of AD Shroff's ideas inspired me to choose the subject of this lecture:

- One was his staunch belief in enterprise as a vehicle of economic development. When he set up the Forum of Free Enterprise in 1956, he wished to educate the public about the infinite capacity of the individual to rise to his full potential, given a fertile and conducive environment with minimal controls and regulation. Shroff had said, "...every individual 'in this country should have the largest possible scope for making his or her contribution towards the development of the country by the use of his or her initiative and enterprise....."
- Another was his huge skepticism of a centralized bureaucracy. He did not regard the government schemes for rural development too kindly as is illustrated by his statement of the 1930s, "Sir James Griggs's clap-trap grants for rural upliftment are once again a tragic repetition of

aimless spending which cannot bring us maximum return for every rupee of our slender resources."

An irreverent commentator could say the same today with considerable accuracy! For example, the central government is reported to be taking a tough stand with state governments because its ambitious Bharat Nirman program has achieved less than half of some key targets during the last three years. Amazingly, our centralized governance system is having difficulty in the easiest of Milton Friedman's four: ways of spending - spending someone else's money (tax payers') on someone else (general population).

The pickup of GDP growth in our country during the last 15 years has been truly remarkable; it has lifted about 250 million people from abject poverty. In spite of India's recent 'breathless' growth, the per capita GDP is under half of China's; although 15 years ago, both countries had a similar per capita GDP. India's per capita GDP today compares with the likes of Ivory Coast and Lesotho.

The renaissance of our economy has been driven by the deregulation of the organized sector and the liberation of the people in 1,200 larger cities (population over 50,000).

"Little India", a term I will use to refer to the over 600,000 small towns and villages with a population less than 50,000, has not experienced the highs implied in campaigns such as 'India Shining' or 'Incredible India@60'. The 800 million people of Little India are still in the clutches of a centralized and bureaucratic system.

In this speech I emphasize three points:

- 1: Enterprise and decentralization are two sides of the same coin. Whether in a company or a country, enterprise and innovation are promoted by decentralizing authority and empowering people.
2. The natural enterprise of large-town India was released by

the liberalization of the 1990s. However, Little India has benefited less.

3. Society in the small towns and villages has been self governing for a large part of history. The centralized form of governance adopted after independence has shackled the natural enterprise of the people in Little India.

Over sixty years, the nation has experimented with many approaches to spreading prosperity. We need better results. It is time to try a different intuitive and natural approach.

We need to liberate Little India by empowering the people and promoting more local governance. That is the only way to spread prosperity to larger sections of our population because it will unleash the natural enterprise of people out there.

It is something that AD Shroff would dearly have loved to see.

### **'LITTLE INDIA' HAS GAINED LESS**

I offer a few indicators to support the almost self-evident view that Little India has gained less from the high national economic growth of recent years.

- Between 1980 and 2000, the per capita income of our workforce, which is dependent on agriculture, has been about flat.
- 'CSO statistics tell us that the urban per capita income was 2.3 times the rural per capita income in 1993-94. By 1999-2000, the ratio had widened to 2.8.
- The share of rural plus semi-urban in total credit was 27% in 1994. By 2006, it had shrunk to 18%.
- One third of our 650 million rural people live in officially-declared 'non-electrified villages', another one third live in 'villages with some electricity' and another one third in

'villages with intermittent electricity.' An impending ICT revolution in the villages is a delusion under these circumstances.

- Surveys on rural poverty projects suggest that government, or its accountability, is practically absent in many villages. In spite of the existence of at least 2000 schemes for rural development, in a survey of 400 villages in Karnataka, 40% of the villagers reported that they had never heard of a single government scheme.<sup>2</sup>
- Just two months ago, the National Commission for Enterprises in the Unorganized Sector released a report on 'Conditions of work and promotion of livelihood in the unorganized sector.' The chairman of the commission stated that "three fourths of India's population has indeed been bypassed by the high rate of economic *growth*."<sup>3</sup>
- According to the government's own admission, there is a state of lawlessness and Naxal disturbance in about 150-165 districts spread over 12-14 states.<sup>4</sup>
- Nine tenths of land in India is subject to disputes over ownership. In connection with one such land dispute, two Supreme Court judges, AK Mathur and Markandeya *Katju*, recently made a strong observation, "People are disgusted with this state of affairs and are losing faith in the judiciary because of the inordinate delay in disposal of cases."<sup>5</sup> The World Bank has noted that it takes 425 to 1165 days, depending on the state, to enforce a contract in Indian courts.

I have been traveling into Little India for four decades — my eyes and ears tell me what I believe to be true.

Although Nehru had said in 1947, "Everything can wait, but not agriculture," sixty years later, things are not what was dreamt by the first Prime Minister. The benefits of addressing the problem were understood long ago as two old quotations poetically illustrate:

"Tireless farmers, learned men and honest traders constitute a country,

Wealth, large and enviable, and produce free of pests make up a country,

The hallmark of an ideal land is where people to pay all taxes willingly."

*THE KURAL, 200 BC*

"When the people are well off, they will be content with their villages and value their homes. Thus satisfied, they will respect their superiors and be fearful of committing crimes."

*GUAN ZHONG, 600 BC*

We need an economic movement that starts in villages, not one that bypasses them.

## **ENTERPRISING INDIANS**

An enterprising community is characterized by an outward-looking attitude, a willingness to explore new ideas as well as to accept exogenous influences. These characteristics have been vibrant in our history through the centuries.

Merchants from Mohenjodaro and Harappa were trading with Sumeria as early as 2300 BC. The world's first university was established in 700 BC at Takshila where sixty subjects were taught to 10,500 students, who came from all over the world. On the east coast of South India, so many Roman coins from the first century have been found that it is entirely possible that the balance of trade favored India at that time. Jesus' apostle, Thomas, arrived in Kerala in the first century and traveled freely across the peninsula to die in Santhome, Madras.

Fa Hien and Huen Tsang traveled extensively during the seventh century and recorded their valuable observations. In 1498, Vasco da Gama noted that Calicut was already a thriving port city, which was familiar to Arab and Chinese merchants.

In 1608, an English captain named William Hawkins dropped anchor at Surat. Armed with 25,000 pieces of gold and a letter from King James I to Emperor Jehangir, he traveled from Surat to Delhi and wrote his tour report as follows, "Nothing that England makes at this time is really desired by Indian merchants or officials." During the next 150 years, history has recorded how dramatically events changed. Robert Clive was investigated by the English Parliament for personal enrichment during his years in India. In self-defence, Clive said with feigned humility, "I walked through vaults which were thrown open to me alone, piled on either hand with gold and jewels! Mr. Chairman, at this moment I stand astonished at my own moderation."<sup>6</sup>

A lot is known about the enterprising spirit of the 20 million strong Indian diaspora, which has migrated over the last few hundred years—people from Madhya Bharat to the West Indies, Tamils to Sri Lanka and Malaysia, Gujaratis to Africa, Keralites to West Asia, and Sindhi/Punjabi people everywhere.

India was fortunate to never get totally isolated from global influences during its long history. This is quite unlike her Asian neighbors like Japan, Korea and China, all of whom have had a couple of centuries of complete isolation from the rest of the world during their history between 1500 and 1800 AD.

One tends to think of enterprise dominantly in an economic dimension, but it has a social and behavioral dimension. In one type of society, an action may be considered enterprising, but not so in another: for example, the opening of a tea shop by a tribal person may be considered enterprising in his immediate social circle, but the same act may not be so considered if a young man from a trading community opened a tea shop.<sup>7</sup>

Enterprise is a creative and innovative response to the environment. David McClelland established the now widely

accepted view that enterprise is promoted by a high achievement orientation, which can be promoted by enriching people's thinking and fantasy world with achievement language. Four factors influence entrepreneurship. First, the experiences that an individual undergoes impact his attitude to enterprise; second, the traditions of the family and society in which he lives. Third are the *support* systems of finance and vocational training/extension services to equip him to become entrepreneurial. Fourth and last is the governmental policy framework, which needs to be supportive and mentoring.

These ideas are quite well established and understood. In the 1960s, there was considerable interest in achieving rapid economic development through small enterprise all over the world. In India, the Small Industry Extension Training Institute was set up and has done positive work over the decades. By now there are multiple government agencies trying to do the same thing. These agencies have also become bureaucratized and lethargic, whereas what is needed is a purposeful effort to promote small town/village enterprise.

This most valuable gene of Indian enterprise has prospered, through invasions, battles and colonialism. It is firmly embedded in the Indian genius. It has required periodic refreshment, but has never had to be resurrected. This long-standing propensity for enterprise amongst Indians is a remarkable asset.

The flip side of an enterprising people is that they are empowered and decentralized. That too has been an Indian tradition.

### **THE GOVERNMENT-LESS CIVILIZATION**

The erudite statesman, C.Rajagopalachari, wrote, "India had probably the largest number and very big time-lengths of intervals between one effective government and another. There have been a great many periods during which the people had neither central nor regional governments exercising effective authority. All these

periods of what may be called a no-government condition could not possibly have been tided over' but for the self-restraints imposed by our culture."<sup>8</sup>

This gene of enterprise prospered for centuries under a government-less system in which small communities managed their interests locally. In terms of governance, India has for the large part been a multiplicity of village communities. Excluding 5 of the 25 centuries of recorded history, a centralized bureaucratic state in India was a rarity.

Power was not embodied in the concept of the state.<sup>9</sup> Rulers ruled by capturing the symbolic seat of power. They extracted taxes rather than fundamentally change the societies in their kingdom. As Metcalfe wrote, "The village communities seem to last when nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds revolution; Hindu, Pathan, Mughal, Maratha, Sikh, English are masters in turn, but the village communities remain the same."

I struggle for a modern metaphor to imagine how things might have been. The situation might be analogous to a corporate conglomerate or the portfolio of a financial investor. In both, the prime motivation is economic reward rather than changing the institutions fundamentally. Individual companies are bought and sold, but the managers carry on running their companies as best as they can. Similarly, Indian society carried on, somewhat unmindful of who was ruling and collecting taxes.

Around the time of Aurangzeb, India was not an integrated market for goods and services due to three barriers—an underdeveloped road and river system, the danger of being looted while moving goods across the geography, and the levy of a customs taxes at multiple points during the transit of goods. That is why India was a conglomerate of regional markets.<sup>10</sup>

At the time of independence, apart from colonial India, there were more than 500 princely states. The larger ones even having their own currency, stamps and railways. In the words of one observer, some of these states were 'sinks of reaction and incompetence and unrestrained autocratic power sometimes exercised by vicious and deranged individuals.'<sup>11</sup>

The integration of these states, thanks to Vallabhbhai Patel and VP Menon, has been such a staggering achievement that modern Indians have almost forgotten that just sixty years ago, we were not one country but 500; further, that 300 years ago, we were an agglomeration of multiple village communities.

Without doubt, of course, there was a larger and more cohesive power across the peninsula as embodied by culture and religion. I do not underestimate the unifying importance of culture and religion when I refer to decentralized governance.

When the Indian constitution was developed during the 1940s, there was considerable debate on centralization versus decentralization. The constitution ended up leaning towards centralization, which was an adaptation of western principles to suit our situation and for which, an enabling colonial system was in place. The unfortunate violence of partition also must have tipped opinions in favor of centralization.

In fiscal matters, in particular, the effects of such a centralizing move were feared to be deleterious. Leaders like K Santhanam of Madras argued that these fiscal provisions would make the states 'beggars at the door of the Centre.' Well, he has turned out to be right. The complex processes of the central and state finance commissions to allocate the taxes collected is an exercise in lobbying, and sometimes even mendacity.

The constitution was amended in 1993, making it mandatory to elect village panchayat leaders every five years, one third of

whom have to be women. This means that over 3 million legislators are elected in India every five years, a humongous democratic feat unparalleled in the world.

However, the village panchayats have little flexibility to raise funds. That is why we have MLAs thronging state capitals, and MPs thronging Delhi-to lobby, bully and argue for financial allocations instead of working in their constituencies for their electorates.

The issue of centralization versus decentralization is alive even today.

### THE STATE OF ENTERPRISE IN LITTLE INDIA

India has had so much regulation that no amount of deregulation seems adequate. The chambers of commerce conduct conferences on subjects like "Is India Inc over-regulated?" If India Inc thinks so, imagine the situation in Little India.

There are many anecdotes about the feeling of hopelessness among the small town/rural population-about the lack of rural infrastructure, banks, schools, healthcare or transport to nearby towns, all of which are essential to support commerce and enterprise and the creation of jobs. I have traveled into small towns and villages to assess these feelings. I am shocked that it is a live story of economic deprivation, social injustice and hopelessness that big town folks like I cannot comprehend.

An IGP of police in UP once described to me the harsh social and economic realities he encounters every day. To my astonishment, he concluded by saying "You folks from Delhi and Mumbai do not really live in India."

Citizens who have worked in Little India have experienced these shocking standards of public service and governance. "For more than 50 years, successive governments have initiated several programs to deal with poverty, but they have not made any major dent in the economic and social status of hundreds of millions," observes one such worker.<sup>12</sup>



The various public schemes are not entirely useless; but the state of public services by corrupt governments and inefficient bureaucracies are far below the community's needs. Looking at the way programs are managed by the government, these conditions are unlikely to change in the foreseeable future. So they may continue to appear useless for quite a long time.

The solution lies in leveraging the natural spirit of enterprise among the people of Little India by empowering them more. Intuitively it sounds like a worthy approach. Despite legislation and public pronouncements to delegate power to the communities in Little India through decentralized governance, our system has found it difficult to do.

There is of course a debate to be had on the practical merits—are the people capable, can they take care of their self-interests, will local 'lords' spirit away public money from the community? These are valid concerns and, as I have pointed out earlier, the debate was had even sixty years ago.

Intellectuals and bureaucrats in the urban areas make the decisions about Little India. They are intrinsically more interested in subjects like organized industry, foreign investment, stock markets and so on.

The issue of Little India's economic growth continues to be partially attended. Something has to change. But having tried other alternatives in the past, it is now time to do something different.

However, we cannot replicate the dramatic effects achieved in industrial and urban India by the single act of scrapping industrial licensing. Being rooted in society and politics, Little India's change agenda will be somewhat evolutionary. But the time has come.

Robert Reich, a professor of public policy, observes, "Democracy means more than a process of free and fair elections. Democracy is a system for accomplishing what can only be achieved by

citizens joining together with other citizens."<sup>13</sup>

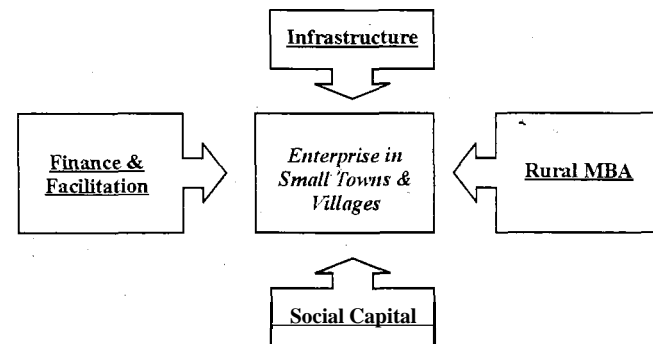
The role of capitalism is to enlarge the economic pie. The slicing up of the economic pie is the role of governance and democracy.

### SOME STUDIES BY TATA

Very recently, the Department of Economics and Statistics in Tata Services (DES) undertook a study on entrepreneurship in Little India. The findings are yet to be published, but I can quote a few salient features.<sup>14</sup>

The aim was to understand the nature of entrepreneurship, and the barriers and triggers to enterprise in small places. Approximately 1,200 small entrepreneurs were interviewed in and around twelve village clusters in the four regions of India.

The study suggests a model for sparking enterprise in small towns and villages. It has four drivers as shown in the chart: Infrastructure (roads, electricity, water), Finance and Facilitation



(loans, helpful officials), 'Rural MBA' (training on markets and basic commerce) and Social Capital (health, education, hope).

Reassuringly, this model is similar to the David McClelland findings referred to earlier. Two activities were found to dominate enterprise—about 50% are engaged in commercial farming (farming for the

market rather than consumption) and 20% in Rura! Non Farm Services (RNFS). Incidentally, the RNFS sector is a fast growing rural job generator and holds much promise for the future.

The findings are interesting in five respects:

1. Panchayat leaders and local politicians, whom urban folks tend to trash, are seen as quite helpful in promoting enterprise.
2. Bank officials are also perceived as helpful. Admittedly this is a partial view because the banking system has rather limited reach. As per NSSO data, half of farming households do not access any credit, whether from institutional or non-institutional sources. Even among farmer borrowers, there is more recourse to non-institutional sources than the banking sector.
3. The people out there are crying out for vocational training in business—a sort of 'rural MBA' if a loose term can be used.
4. The perception is that the environment for enterprise has hardly changed! A plausible explanation for this paradox is that perhaps those funds and schemes do not quite reach those they are intended for.
5. There seems to be a robust self-confidence and common-sense about what it takes to be successful in enterprise.

Perhaps the folks in Little India will surprise the nation through their enterprise just as they have done in matters of voting and politics.

Rallis India conducted a survey among 1,200 villagers in 20 villages, each in 6 different states. To a question about the kind of activities already being undertaken by the panchayat, the top three responses were: Village infrastructure, Resolution of disputes, Help with water issues.<sup>15</sup> This too suggests the desire and willingness on the part of Little India to do more things locally.

The Head of Community Services in the Tata' Chemicals Rural Development Society (TCRDS) has documented her experiences in a paper.<sup>16</sup>

TCRDS cooperated with an ICECD, an institution established in 1986 called International Centre for Entrepreneurship and Career Development. ICECD is located at Ahmedabad and is recognized as a centre of excellence by the United Nations; it has trained over 10,000 people, who in turn have developed the enterprise capabilities of thousands. The focus is to promote enterprise, particularly among women. Using the training imparted by ICECD to their staff, TCRDS conducted a sort of 'rural MBA' program for the 42 villages around Mithapur in local community halls, private rooms or wherever convenient.'

Tata Chemicals Rural Development Society has drawn certain lessons from its experiences. One lesson is that the government can become a threat to entrepreneurs when they become successful—as in the case of a woman entrepreneur, who attracted the attention of the sales tax department. Another lesson is the role of society. In Gujarat, enterprise is perceived positively, but not so in Babrala, UP, where caste determines what can be done and by whom. A third lesson is the need for a facilitating information cell: she was toying with the idea of a Tata Vyavasai Kendra.

Tata BP Solar in Bangalore makes and markets solar panels. I was interested to learn that, apart from its green credentials, solar power in villages has three benefits—improve access to electricity, provide direct employment to install and maintain the panels, and to collect the electricity charges at a periodic frequency; last to generate indirect employment through small fabrication shops, outlets to sell solar powered household devices, storage, transport etc. Tata BP Solar estimates that the direct plus indirect employment potential could be about 700 per megawatt of solar power. Of the over 200,000 MW needed in the country,

even if only 5,000 MW were to come from solar power, the direct and indirect employment potential in Little India could be 3.5 million! This employment level is impressive when compared with the 13 million jobs (direct plus indirect) generated by the auto industry or the 2 million direct jobs by the IT and ITeS industry.

The people in the over 600,000 towns and villages of Little India need both the electricity and the jobs.

### THE CHALLENGE OF SCALABLE EXPERIENCES

There are several examples of enterprise in small places.

- The most prominent is the KVIC, Khadi Village Industries Corporation. About 8 million workers serve full or part time, earning Rs 5,000 crores as wages and selling Rs 14,000 crores of merchandise.
- Chetna Gala Sinha runs a Mann Deshi Udyogini to provide vocational and financial training to help women become entrepreneurs and access the benefits of micro-entrepreneurship.<sup>17</sup>
- Due to power shortages disrupting trade in Sheetlamata Sabzi Mandi at Khamla near Nagpur, garage owner Panju Totwani installed a 7.5 kw generator set for the vegetable traders.<sup>18</sup>
- Delhi-based Dhriiti trains young adults to be entrepreneurs and works with grassroots level organizations to set up sustainable enterprises.<sup>19</sup>
- Citibank runs a micro entrepreneurship award scheme in 22 states across the country.
- KIWA, which means 'agreement' in Swahili, is a US-based, non-profit organization, which runs a website to connect people—those who need the money with those who wish to donate. It personalizes the act of giving. It has enabled 90,000 people to lend money to 15,000 enterprising people.<sup>20</sup>

- The Zhejiang rural entrepreneurship model in China has caused the political elite to consider reform, which will enable the rural peasantry to exploit their business talents. On a per household basis, Zhejiang has 3.4 times more entrepreneurial population compared to the fabled Shanghai.<sup>21</sup>

Such examples confirm that positive results can be achieved on a limited basis. The challenge is to scale it up.

Governments respond by allocating more funds and setting up more schemes, which continue to run through a centralized bureaucracy. As a result, there are overlapping schemes run by many ministries at the state and federal levels: I once counted over 50 schemes from the central government alone, amounting to over Rs 50,000 crores! As mentioned earlier, even the awareness of such schemes tends to be low among the villagers.

### CONCLUSION

Everyone wants decentralization, but only up to his level. Soon after the reforms began in 1991, debates broke out on whether or not reform had produced the desired results. The data was the same, but the views on the pace of reform ranged from 'Stop' to 'Slow down' to 'Accelerate' reform. Similarly, with respect to decentralized governance, one can hear a whole range of views—that 'decentralization is a bad idea' to 'decentralize faster'.

The reality is that markets for land, credit and agro-produce have to be encouraged to develop. Otherwise, as Hernando de Soto has written engagingly, people will never be empowered. That is why India must decentralize more and faster.

How? A study group has already said how. In preparation for the 11<sup>th</sup> Plan, the Ministry of Panchayati Raj set up an expert group on planning at the grassroots level. The group has addressed many aspects of policy reform. Their report deals with reforms in the planning process right from the village level and its coordination at the district level by the District Planning

## Committees.

"While 55 years of planning has failed to deliver social and economic services at the desired levels and efficiency, perhaps decentralizing the planning is the only option left and, hopefully, this report will not merely find the place in the shelves," wrote the Director of the National Institute of Public Finance and Policy.<sup>22</sup>

A serious impediment to acting on this issue, as distinct from debating it, is the risk of the action. There are anecdotes and studies which suggest that devolution of funds and planning must be done only with due preparation. Otherwise, a disastrous range of bad results has been forecast—from misuse of current tax collections to a scam worse than any other to even deterioration in the existing delivery of services. All these have attendant political risks, which nobody wants to take. But I ask, are those risks bigger than the ones we have got accustomed to?

A thought provoking paper has been written to explain why people elect the same leader despite his known proclivity to extract rent from the system.<sup>23</sup> Especially where communities are divided by caste and religion, the fear that a new leader may come from a different cohort group restrains people from voting out 'our own man.' That is why in India, we find that criminals are included among our council of ministers and also that 'important people' are never jailed.

The Bombay Chamber has mooted a good idea. They have identified a completely new source of revenue, the raising of which they propose can be mandated to the panchayats, who are also well qualified to do so. In this way, there will not be any interference with any ongoing revenue raising or usage scheme. The idea can use the instinctive capability of self-governance by local bodies to raise and manage funds for village enterprise or the public good.<sup>24</sup>

The paper points out that the *total* land revenue of all states currently is Rs 2,295 crores. Bengal alone accounts for 32% of this. If other states can raise revenue in line with Bengal, then the panchayat bodies could raise Rs 25,000 crores. This money can be used for developing village level infrastructure and promoting enterprise in small places. It is certainly a novel idea worthy of further development as commented upon by a *newspaper*.<sup>25</sup>

The truth is that we are sitting on a crisis. There are six symptoms of a brewing crisis<sup>26</sup>:

- Leaders know that a problem exists and that the problem will not solve itself.
- Leaders recognize that the problem is getting worse over a period of time.
- Fixing the problem will cost a lot today but the benefits will come much later.
- One leader will incur this cost but another will reap the benefits.
- Tendency to fix a few short term things than address the real issues.
- Inaction benefits a minority which thwarts the leadership's efforts.

All these six symptoms are evident and clearly visible to many of us.

The solution lies in releasing the enterprise of the people in Little India and empowering them. Whatever is to be done must be different and done with a sense of urgency.

AD Shroff was so frenetic a worker that his doctor once told him, "You are like a woman who wants to have a baby but

cannot wait nine months!" That is the spirit of urgency we need.

I hope that the thoughts expressed in this speech will advance the agenda, even if only by a wee bit.

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## **Ardeshir Dorabshaw Shroff**

(1899-1965)

A. D Shroff was one of those rare gifted individuals who leave an indelible mark on their environment and an impress on the hearts and minds of those who come across them. When the history of India's industrial development, particularly industrial finance, is written, his name will figure prominently. But that was not the only area wherein he excelled. His contributions to economic thinking and public education in economic affairs were equally significant.

Shroff was a champion of free enterprise and a great leader of business and industry and an economist whose predictions have proved right over the years.

In 1944 Shroff, along with seven other leading industrialists like J.R.D. Tata, G.D. Birla, Kasturbhai Lalbhai and Krishnaraj Thackersey authored what has come to be known as the 'Bombay Plan', setting out the fifteen year perspective plan, and with "the greatest possible role for the private enterprise and reducing controls to the very minimum so that private enterprise may operate under conditions of market economy."

Shroff was Chairman and Director of numerous companies. He was Chairman of Bank of India and of the New India Assurance Company for several years. He was greatly exercised by the growing socialist ideology of the Indian Government in the early 1950s culminating in the nationalization of the Imperial Bank of India, airlines and life insurance. To educate public opinion of the serious implications of these measures, and to project the great contribution private enterprise could make to speedy development of the economy, he promoted the Forum of Free Enterprise in 1956. During Shroff's birth centenary in 1999-2000 the Government released a commemorative stamp in his honour. His biography entitled 'A.D. Shroff-Titan of Finance and Free Enterprise' by Sucheta Dalal was also published.

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

**- Eugene Black**

# FORUM

## of Free Enterprise

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

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