

IS THERE A MIDDLE WAY?

DR. FREDIE A. MEHTA



FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR D N ROAD.
BOMBAY 400 001

"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

IS THERE A MIDDLE WAY?

By

Dr. FREDIE A. MEHTA^Y

The question that I propose to answer and elaborate upon is: Is there a Middle Way between Capitalism and Socialism, between the Price Mechanism and Planning, between *Efficiency* and *Equity*? The question is simple, so simple as to be denounced superficial to a point of being superfluous. The spiritual heritage of mankind has long advocated the virtues of moderation. Lord Zarathushtra expressly insisted on moderation as one of the supreme virtues of the Good Life; Lord Buddha dwelt at length on the virtues of the Middle Path; and Confucius insisted that life must be a mixture of the positive and the negative. Every calamity has in it the seeds of an opportunity and every great fortune the seeds of a collapse. The Middle Path, therefore, is almost spiritually ordained.

But, to come down (literally!) from the sublime to the ridiculous, the middle path also has some pragmatic virtues. It seems to offer the best of both the worlds;

* The author is an eminent economist and Chairman of Forbes Group of Companies. The text is based on the 29th A.D. Shroff Memorial Lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 30th November 1994.

it also offers an easy escape route for people. A classic example of the former was when Isadora Duncan is alleged to have approached George Bernard Shaw with a request for marriage on the ground that the product would be unique, combining her beauty with his brains. But GBS is alleged to have retorted: "Madam, what if the child has my beauty and your brains?" The classic case of the escape route is provided by the Chairman of a club who had to introduce the Mayor of the city. He took the middle path by stating that some people thought that the Mayor was a rogue and others thought that he was not. He, on his part, took the middle view!

We, in India, now stand in the Company of nearly a hundred countries which have dedicated themselves to a Free Enterprise System. We are conscious that the transitional period from a system of bureaucratic regulation to one of free enterprise is fraught with several problems and pains. But, as the entire world has discovered, there is no escape from the system of free enterprise. Yet, as we all agree, it has to be free enterprise with a human face.

When, therefore, early this year the Prime Minister pushed aside his written speech before the August gathering of World Economic Leaders at Davos, and said that India's destiny is to follow The Middle Path, he was, in fact, stating no more and no less that India as a Democratic, Federal country with innumerable vested interests ranging from the Industrial Lobbies through the Farm Lobbies to the Trade Unions, with

States at varying levels of socio-economic development, and with a background of 40 years of bureaucratic socialism could not be expected to perform a miracle overnight. The Thatcherite Big Bang thesis cannot work here. In a Democratic country, PEOPLE CAN BE BRAIN-WASHED; THEY CANNOT BE BROW-BEATEN. MILITARY TANKS CANNOT BE USED; THINK TANKS HAVE TO BE USED. People must have time to adjust themselves intellectually and emotionally to the new regime of Free Enterprise. We need Gradualism both on pragmatic and humane grounds.

More specifically, the Prime Minister said that a program of rapid Industrial Productivity such as would throw millions of workers on the streets was totally unacceptable to a country committed to the doctrines of Mahatma Gandhi. No less, and perhaps more significantly, he added; "We must recognise that even if 7 to 10 years from now, the MNCs are able to deal with the problems of the first 50% of India's population, it will remain the responsibility of the Government of India to deal with the problems of employment, and of livelihood of the remaining 50%."

These observations were received with surprise by the Proponents of the Economic reforms in India; by fear from the Right Wing Critics, and with scorn by the Left Wing Opponents. The Proponents of Economic reforms were surprised as India, perhaps uniquely among the 40-45 developing countries of the World attempting Economic reforms, had secured the maximum gains with the minimum pains. No doubt, in the initial 2-3

years, the transitional period saw a contraction in the Industrial output of the country; no doubt, the reduction in subsidies resulted in intensified inflation; and no doubt, the reduced allocations due to reduced Governmental expansion did cause hardship to various sectors of the economy. Most importantly, the sharp inflation in the prices of basic items, particularly all food grains was a disconcerting factor which could not be missed out, particularly with a relatively weak Public Distribution System (PDS).

But, having said all this, there has been no large scale displacement of labour, even though Industrial employment may not have gone up. On the other hand, there was a tremendous outburst of activity, first in the Financial and then in the Industrial Sector of the Economy. The Foreign Exchange reserves rose magnificently from Rs. 1.6 Mn. in June 1991 to nearly Rs. 20 Bn; the rate of inflation, though still worrisome, had been subdued; Industrial Houses were vying one with the other to come out with new programs of modernisation, expansion, diversification and globalisation. Foreigners, no longer spoke of "China, then India"; indeed, many reversed the scheme, with India emerging as the darling of foreign Investors. Why then did the Prime Minister, apparently all too suddenly break out into a discourse on "The Middle Path" at Davos?

FREE ENTERPRISE BUT WITH GRADUALISM

Fear was then expressed that the Prime Minister was now trying to put a break on the speed of Economic

reforms. He was trying to prevent any significant attempts to secure major gains in Industrial productivity. He was, in effect, trying to protect the old bureaucracy, and far more importantly the question was raised: "Has the Prime Minister begun to think of his Vote-Banks rather than of Economic reforms?"

On the other hand, the Left Wing criticism was true to form. It saw his speech as nothing but a skillful decoy to continue with his policy of liberalisation but uttering the slogans of soft socialism. Be that as it may, *the Prime Minister had made the intelligentsia and the Policy Makers in India sit up and ask the question: Have we moved three steps forward only to move two steps backwards?*

One can debate whether one should move one step or two steps backwards, but anyone familiar with the problems of Management must know that no policy implementation takes place at once and down the line. It meets resistance; it even invites a back-lash. Therefore, skillful Managers always prepare for a fall-back position when a Policy runs into too many problems with too many people at too many places. This is all the more so in a Democracy. Are we not indirectly preaching that The Middle Path must always make a provision of not going towards extremes and with extreme haste?

Even at a downright practical level, we have to recognise that the ills of 40 years cannot be undone in four years. For 40 years, Indian industry was condemned to be small and to remain small. It was, in fact,

"Pygmytised". To call upon it all of a sudden, to compete with giant global MNCs within a matter of 3-4 years does not make sense. Again, proponents of Privatisation — and I am one of them — would certainly want to see the programs in this area move faster and more meaningfully. But, we have to recognise that the Public Sector is today the dominant sector, and in spite of programs of privatisation will remain a dominant sector for years to come. Managerially, the Public Sector needs to be re-activated and re-oriented towards the goals of Free Enterprise, but given the fact that the Public Sector today accounts for 96% of the power supply in the country and 92% of the Bank deposits, let us not believe that even giant leaps into Privatisation will radically alter these ratios. We are not, therefore, arguing for dragging our feet when it comes to Economic reforms. Nothing would be more dangerous and self-defeating. We are arguing for a correct perspective to be brought to the programs of Economic reforms, and their sequencing. Unless this perspective is obtained in a correct manner, we are inviting back-lashes, perhaps even disasters.

PAINS IN THE SHORT-RUN, GAINS IN THE LONG-TERM

John Maynard Keynes once said in a celebrated sentence "In the long run, we are all dead". The tragedy is that for a country embarking on Economic reforms with the goals of Free Enterprise and Competition, the reverse is true, and it is the short run that is particularly painful. In the short run, Economic reforms carry a variety of pains and penalties; with the reduction in

subsidiaries, with the reduction in Government allocations, with a compression in the availability of both domestic credit and foreign exchange, the first round of Economic reforms becomes one of both stagnation with inflation. We have seen this in one country after another, but no where so dramatically and tragically as in Russia today. By contrast in the first round of Socialism, people "enjoy the bliss" of assured employment, social services and for the masses a great degree of law and order.

In the long run, Free Enterprise almost always delivers the goods, whereas a planned economy almost always breaks down. This makes Capitalism and Competition particularly painful in the short run; by contrast, it makes Socialism particularly attractive. That is why we are today witnessing in one country after another, that the Communists, now in their new garb of "Social Democrats", are coming back to power. The greatest problem before Economic reformers is that while in the long run their remedies do promise a great deal of success and prosperity, in the short run, they do tend to bring a great deal of economic insecurity and dislocations, often accompanied by outburst of crime and corruption which imperils the law and order situation. In short, periods of transition have often been accompanied by chaos, corruption, and even crime.

From this point of view, we have to congratulate our present Government that by a wise system of gradualism on the one side and proper sequencing of reforms on the other side, they have been able now to ward off those tragic consequences which one

has witnessed in so many countries embarking on Economic reforms. It has been said repeatedly that our Economic reforms have not touched the politically sensitive areas. Even granting that this is true, is there no wisdom in going "one step at a time?" There is this basic conflict between the short-run and the long-term. Most political and economic reformers know this only too well and our Government, to-date, has succeeded in doing a good piece of "fine-tuning". Once again the triumph of "The Middle Path".

FREE ENTERPRISE AND M E CARING STATE MUTUALLY BENEFICIAL

It is necessary, however, that we clear a considerable amount of misunderstandings that have developed in this area, of what may be called "The Middle Path". Over the last century, the Leftists have been so vigorous in demanding a greater share for the State that today Statism is almost automatically equated with Leftism. This is really interesting, because Adam Smith when he called for an attack on the powers of the State over two centuries ago was, in fact, attacking what in modern terminology would be called "The Right Wing, Mercantile Lobby". The State has been used by both the Right-Wing and the Left-Wing and indeed, in a number of Asian Pacific countries that have recently shown a spectacular rate of economic growth, the State and the free enterprise forces have worked in an amazing harmony for quite a few decades. Statism, therefore, is not the monopoly of the Leftists though in the last century, it has been largely so.

The second point on which we **must** be clear is that the Price Mechanism on whose altar the proponents of Free Enterprise offer their incense is not a sweet, soft or sugary mechanism. The Price Mechanism is, in fact, a very strict disciplinarian, and sometimes, the proponents of Free Enterprise themselves seek the help of the State to escape its rigours. As Sir W. Arthur Lewis has said, "The Free market is a powerful instrument of social control, which directs production to the service of demand, stimulates progress and eliminates excessive earnings". In countries, where the free market operates, there are more bankruptcies per thousand companies than anywhere else. The Price Mechanism allocates resources to different industries on the basis of their conceived profitability, but if these companies or industries do not supply what the market needs, they could literally be out of existence. That is why Joseph Schumpeter spoke of Competition as "the gale of creative destruction" — creative, insofar as new products, new processes and new technologies come into existence, and destruction because those not so equipped to face competition now face extinction. The popular conception that the Price Mechanism is a **magic** wand that **inflicts** few hardships and ensures fast growth is somewhat misplaced. In **strict** truth, it demands continuous innovations, continuous **cost-cutting**, continuous R and D, and continuous obedience to the consumers. It is rewarding to **sustained** efficiency — it is very punishing to sustained inefficiency.

FREE ENTERPRISE AND THE CREATION OF SOCIAL SURPLUS

Thirdly, Free Enterprise Economics, even when they keep the economic activities of the State to what may be called the barest minimum, do not hesitate to utilise the State for a number of activities, Social Military and Humanitarian. Thus, it has been a striking feature of several Free Enterprises of the World, particularly since 1945 that while the pure economic role of the state is diminished, the expenditures of the State on Defence, Social Services, Subsidies and so on, are so large as to account for not less than 45-70% of the Gross Domestic Product (GDP). Sweden is an extreme case, but by no means a rare example of a country which is basically committed to Free Enterprise, but where Public Sector expenditure consumes some 73% of the GDP of Sweden and the tax burden is close to 60% of GDP. No less conspicuously, the share of employment in the Public Sector in the total employment has shown an increase in Europe from about 25% in the mid-fifties to as much as 50% in the mid-eighties. Indeed, ironical as it sounds, the battle cry against "over-regulations, over-taxation, over-government", has been raised in the very countries which are basically dedicated to Free Enterprise, and this is precisely what gave rise to the phenomenon of Thatcherism and Reaganism. Free Enterprise and the Public Sector both grow together, especially when their activities far from being competitive are mutually complementary; free enterprise releasing

the surplus resources for the State, and the State, in turn, creating the **socio-economic** infra-structure for the benefit of the private sector.

The reason why in not only the advanced countries of the World, but also in the fast-developing countries of the Asia Pacific Region we find two seemingly contradictory trends developed is on bottom a simple one — **atleast** it must appear simple to those who are not ideological addicts. On the one side, Free Enterprise with its concomitants of the Price Mechanism and competition are allowed the maximum freedom, subject to certain regulations; on the other side, the public sector share in both the total employment and in the national expenditure of the country continues to increase. There is no **contradiction** because once the State, or more accurately the Government in power, **has** set the broad guidelines, and in the case of indicative planning the specific deadlines (as currently the Indian Government is seeking to do), then the State finds that instead of wasting its abilities, energies, and expenditure on a number of activities which the private sector can do, or can do better, these can now be dedicated to such vital visible and invisible areas of the economic and social infrastructure of the country. Health, education, the rural sector, the administration of specific anti-poverty schemes — to all these areas the State must now dedicate its capabilities and **its** resources, apart of course, from those of national defence and law and order.

PRODUCTIVITY CENTRAL TO THE WELFARE STATE

It then becomes the duty of the economic sector of the country (including the private, the public, the co-operative and the joint sectors) to create such increases in productivity as will release the resources to the Government to implement its programmes of socio-economic development. The failure to increase productivity will imperil the creation of a Welfare State. Subsidies, social services and safety nets are vital to ensure Free Enterprise with a humane face, but at the end of the day they can be sustained only by such continuous increases in productivity as will release resources for the State. The collapse of the erstwhile Soviet Russia and the agony of such welfare States like Sweden can, in no small part, be attributed to the fact that without continuous increases in productivity, surpluses cannot be generated as will finance subsidies, safety nets and social services.

LOW TAX-RATES AND HIGH TAX-REVENUES

If the first condition of creating a socially-oriented market economy in which welfare schemes can be continuously maintained is the continuous increases in national productivity, then the second condition is for the tax revenues to increase not only because of sharp increases in economic growth, but also due to a continuous expansion of the tax base. It cannot have escaped notice that during the decade of the 1980s, though there has been unfortunately, an alarming increase in income inequalities in both the U.K. and the U.S.A.,

the single most important fad is that the sharp decreases in tax rates were accompanied by sharp increases in tax revenues. This, therefore, supplies the relevant model under which productivity increase must be accompanied by tax incentives in such a manner that surpluses are created on the one side and increased tax revenues are obtained on the other side.

THE ROLE OF PRIVATISATION

If we do take privatisation to be a very meaningful mechanism of the transition of a bureaucratic, over-planned State to one of the market mechanism, then it is also the duty of the private sector to release resources such as will increasingly supplement the resources of the state in such vital areas like power generation, telecommunications, road-building, etc. The very essence of privatisation is that while the State reduces its expenditure and its activities in this area, the private sector comes forth with increasing resources so as not only to compensate, but to more than make up the reduction in the resources allocated to these vital sectors.

THE ROLE OF PRICE MECHANISM

Last but not the least, the market mechanism cannot do all at all times, and in any case, in conditions of war or of a crisis, it has to be subordinated to broad State activity. Having said this, one can legitimately entertain the hope that the price mechanism will now allocate resources of the country in a most productive

manner. Resources will be allocated and made use of in the most economical manner due to the price mechanism. Switzerland does not produce cars and planes; Sweden does not produce textiles and shoes; but none is the poorer for it. The discipline of the price mechanism ensures not only consumer sovereignty but also the optimisation of the economic resources of the country.

THE MIDDLEWAY CAN BE A MUDDLED WAY

However, at a practical level, one has to recognise that the "mix" between Free Enterprise and the Welfare State will vary from country to country, and even within the same country, from one time period to another. That is why in a light-hearted manner, the opponents of the Mixed Economy say that it often ends up by being a "Mixed-up economy". More severe critics allege that the Mixed Economy ends up by being a "a muddled economy". In truth, these accusations may be valid every now and then but it is in the very nature of the Middle Path that there will be some swings from one position to another at varying times. At the onset of the economic reforms, we had to go lock, stock and barrel for ascertaining the virtues of Free Enterprise with a humane face, we want a market economy that is socially-oriented and socially-motivated.

Indeed, as the Appendix to our lecture will show some of the greatest proponents of the Price Mechanism have been none other than the socialists themselves; and some of the greatest proponents of the social

conscience of society have been none other than the proponents of Free Enterprise. This is the beauty of the Middle Path and our quotations spread over a period of a century from 1894 show that again and again it is the socialists who have argued for the Price Mechanism, and it is the Capitalists who have argued for the Welfare State.

THE MIDDLE CLASS AND THE MIDDLE PATH

It is in this context that I may have to say a few things about the Middle Class, to which I myself belong, which may not be altogether complimentary. In too much of the literature on our economic reforms, in general, but on the Free Enterprise system in particular, we have made it appear as if the entire success of economic reforms are of the middle class, by the middle class and for the middle class. It is perfectly true that both the Prime Minister and the Finance Minister have been stressing time and again the dangers of this misconception, but the fact remains that in our presentations both within and outside India, the role of the middle class is eulogised to an extent which is politically dangerous for its survival and growth.

Do the middle classes of India recognise that there is a middle path? One can easily take a bet that of the over 1,000 articles written or speeches delivered on the process and progress of economic reforms from June 1991, 750 are almost entirely dedicated to lauding the process and the purchasing power of the middle classes of India. In the remaining 250 some references

are made here and there to the "poor masses of India", but there should be no doubt as to who are the heroes in this drama.

To the middle classes it appears as the dawn of a glorious era with the spectacular rise in the prices of scrips in the stock market, with the abundant availability of more consumer durable goods coming on to the markets, with the sizable increases in the salaries and perquisites, and not least, with India's triumphs in the "beauty contests" in the world. Every now and then some words of sympathy for the poor do leak out, but we expect that somehow the poor will be taken care of in some way. The Trade Unions and the managerial classes both say in harmony: "I am all right, Jack". The former are protected by the increasing Dearness Allowances guaranteed to them; the latter have been protected by the increasing pay scales. The question as to whether the poor do come into the picture is treated virtually as a cry of out-dated socialism.

It is not. Even at the most obviously pragmatic level, the poor still have the vote banks with them. They do not get inspired by the schemes of VRS; they want the effective working of the Public Distribution System. They are not impressed by the spectacular increases in stock market prices; they are affected by the sizable increases in the prices of foodgrains. They are not impressed by the schemes of safety net for the privileged few who belong to the organised sector; they want a safety net not for the organised classes, but for the unorganized masses.

M E NEED FOR HONEST AND EFFICIENT ANTI-POVERTY PROGRAMMES

The fact that "anti-poverty programs" in the past have been both political hoaxes and economic frauds, does not mean that we do not need them; it only means that they need correction, administratively and economically. Indeed, contrary to a popular assertion, the Central and the State expenditures on social services and rural development as a percentage of total GDP has not declined during the last three years, but it has not increased either. Secondly, and perhaps more agonisingly, there has been a re-allocation within these heads so that some sectors have suffered by way of reduced allocations and others have benefited. But the perception is there, that the true victims of inflation have been the poor and the needy; not the middle classes of India.

If we do wish to follow the Middle Path, then the middle class must give considerable attention to how they can devise safety nets, not for their own selves but for the millions who do not belong to this class. After all, the very use of the words "The Middle Class" implies that there is not only "an Upper Class", but also a larger "Under Class". All this has nothing to do with socialism. To plead that we must have a passion for economic growth with a compassion for the poor is not to repeat a cliché of socialism; it is only to recall the "talisman" that **Gandhiji** bequeathed to all of us.

I seem to have sung the praises of the Middle Path so eloquently that I may leave you with an impression that it is an easy path to follow. In some ways, it is; in many ways it is not. To reiterate: If during the initial transitional period of the introduction of economic reforms, in fact the inequalities multiply, inflation rages, unemployment shrinks or is believed to have shrunk, crime and corruption is visibly increased, then people are going to swing to one extreme or the other, and here it is that it is going to be extremely difficult to maintain and assist The Middle Path.

MIDDLE PATH CAN CONVERT ECONOMIC WARFARE INTO ECONOMIC WELFARE

However, I do believe, and this I now say as the finale to my speech that if we approach The Middle Path with a spirit of compassion, with a sense of compromise and with some degree of innovation in our thinking, The Middle Path offers to us a path both of peace and of progress. Let me hasten to elaborate.

During the last **40** years of our economic policies, we, consciously at sometimes, but sub-consciously at most times have created not merely an economy, but a society that is split into warring segments. Through our policies of licensing, controls, reservations, taxations, **differentials** and subsidies, we have reared a society which far from being harmonised into the **INDIA INC** on the pattern of **JAPAN INC** has actually converted our economy into warring segments. We may not have had competition in the market place, but we have had

any amount of savage struggles by all sorts of vested interests. Each economic policies had put —

THE PUBLIC SECTOR AGAINST THE PRIVATE SECTOR
 THE INDIAN SECTOR VERSUS THE FOREIGN SECTOR
 THE LARGE SCALE SECTOR VERSUS THE SMALL SCALE SECTOR
 INDUSTRIAL LABOUR AGAINST INDUSTRIAL MANAGEMENT
 TENANTS VERSUS LANDLORDS AND SO ON

In splitting our Society into such warring fragments by ever-multiplying legislation of all types, we have deprived our society of the quest for unity, the will to compromise, of the skills in innovative policy-making, of the sense and spirit of harmony — the very virtues which have made the various conflicting interests in Japan come together in a spirit of harmony to forge Japan Inc — a cry so frequently heard in India, but hardly, if ever, achieved, except during periods of war.

EXAMPLES OF NEEDLESS ECONOMIC WARFARE

How else can we explain to the World what we have come to have in India:

* ***Rents prevalent in 1994 which in money terms are the same as in 1940 and in real terms 2% as those in 1940.*** By what canons of democracy can this dictatorship of tenants be defended? Yet, is it too much to ask that an innovative formula be worked out reconciling in a spirit of give-and-take the conflicting interests of the tenants and landlords? The late L.K.

Jha once submitted a whole Report showing how so many democratic countries (and cities) have worked out a number of innovative formulae in a spirit of compromise; in 1983 he noted, for example, that in Washington D.C., rents were revised once every three years to the extent of one half of the increase in the Consumer Price Index.

But till very recently, Government legislation in many parts of India ruled out any attempt at innovation and compromise by its draconian rent-control legislation. The search for vote-banks negated all principles of fair-play, atrophied the spirit of compromise — the Middle Path was exiled.

* ***The same tragedy has befallen us in the area of Industrial Relations.*** Foreign commentators, on the Indian economy, are absolutely horrified to find that, per 1000 Industrial man-days, India loses due to poor Industrial relations, more man-days than any other country in the World. Ironically,? our very Legislation and Labour Judiciary exalts the conflicts and cleavages between Labour and Management instead of encouraging them to arrive at some measure of consensus at the bargaining table, the table of Collective Bargaining.

Consider the gigantic losses suffered by the Indian economy: each year, 15 days are lost due to Port strikes, 15 days are lost due to Transporters' strike, 10 days are lost due to Bank strikes, and 22 to 26 million man-days are lost due to strikes and

lock-outs in Indian Industry — not to speak of the many, many more millions of man-days lost due to deliberate, go-slows and the disruptions and destructions caused by public ire or "public-interest" causes.

* ***Consider again the cleavages and conflicts deliberately introduced by government legislation between the small scale and the large scale sector.***

The manner we have structured and fostered our small scale industries is a tribute to our spirit of generosity but not to our sense of economics. Thanks predominantly to a continuously enlarged list of reservations, tax rebates and outright subsidies the small scale industries of India have been brought to a stage when even with these major crutches, most of them cannot justify their existence. Conspicuously in Japan, in Germany and in Sweden, over **75%** of all industrial establishments employ less than 100 persons. In some areas, their productivity per person is even higher than that in the large-scale industries; in other areas, they have carved out a niche for their activities and products; but in most areas, they have built up a synergistic **relationship with** the large-scale industries. In India, on the other hand, a great majority of the small scale industries have been nothing but, small scale **replica** of the large-scale industries, and instead of relying on their basic economic or technological strength to grow, they have relied almost entirely on tax incentives and the system of **reservations** in order to survive.

Once again, instead of building up synergistic relationship between large-scale and the small-scale, as we find so prominently in the two great industrial countries of the world, namely Japan and Germany, the small-scale industry in India has been reduced largely (though happily, not entirely) to being a sector, whose principal survival is built on subsidies and governmental protection, and the continuous clashes between small-scale and the large-scale have, therefore, become the order of the day; what should have been an arena for joint growth has become a battle-field for snatching concessions.

All the above three illustrations show that with some degree of innovation and a greater degree to compromise, we could have evolved a situation which instead of giving us economic warfare, would have given us economic welfare.

MIDDLE PATH LEAVES ROOM **FOR** COMPROMISE AND INNOVATION

Not only is the Middle Path one that makes us seek compromises and evolve consensus to the mutual good of the conflicting parties, but it also provides by its very nature a fertile field for the evolution of imaginative policies. By definition, the Middle Path is free from ideology; but it is not free from the conflict of different interests. Let us see how it could have been, or it could now have been applied to a question which is so dear to the hearts of so many Industrialists.

A SCHEME TO MARRY **THE** INTERESTS OF INDIAN PROMOTERS, INVESTORS AND M E POOR

Right at this present moment, many Indian industrialists are disturbed that, sooner or later, they will be subjected to a raid by either Indian or Foreign parties, and for this purpose, there has been a persistent demand that a preferential allotment of shares be issued to the Promoters of Indian industries at preferential prices. This demand has been perceived throughout the country as nothing but an example of blatant selfishness. Could it have been possible to come out with alternative schemes? My own suggestion takes its inspiration from the Trusteeship Concept bequeathed to us by Mahatma Gandhi. In such a scheme of things, the following could be the major planks:

1. The Indian promoters would be allowed to hold additional shares of upto 10% of the enlarged capital of the Company that they manage, provided these shares would be put in a Specified Trust, whose activities would primarily deal with genuine applications from and for the poor and the needy.
2. The Indian promoters would be permitted to create shares by paying one-third of the average price for the last six months.
3. In return, this investment made by the Indian promoters would become the property of the Trust, but the voting power would be exercised in favour of the Indian promoters, and would continue to do so unless the Company managed by them fails to declare a dividend for 3 years in succession.

4. The dividend received would, after deducting the cost of administering the Trust be distributed by the Trust for specific purpose which must be directly related to the **needs** of the **poor**.
5. The Trustees must be persons totally independent of the Industrial house, and once appointed should not be removed except for moral turpitude.
6. The Trust shall stand dissolved after a period of 15 years and its corpus of the shares vested in the Trust by the Indian promoters **will** revert to them.
7. In this manner, the **Indian** promoters will be able to buy their shares at a relatively low price, provided the dividends received during this period of 15 years are entirely used for charitable purposes. It simultaneously assures that in the absence of total inefficiency or non-viability of the Company, they have managed that they will be protected by the voting rights invested in the Trust against hostile raids. This then would represent the marriage of **both** the practical and the philanthropic goals, and the Trust would, in effect, serve as a concrete **symbol** of the Trusteeship concept bequeathed to us by **Gandhiji**.

By no means is our suggestion fool-proof. **Certainly**, it is subject to several improvements and **various** legislative changes. But this is the very essence of the mixed economy, that we bring a pragmatic consensus approach to **most** matters and in **so** doing are not only to subdue

our own passions and prejudices, but also to use law for man, and not man for law.

The Middle Path is not free from difficulties, particularly for an economy, which is about to make a transition from 40 years of over-planning, over-bureaucratisation, over-controls but, the key words in this are: Gradualism, Compromise, Tolerance and Pragmatism. At the best of times, the market-mechanism, the hand-maiden of Free Enterprise, has its limitations, its injustices, its excesses. That is why over a century ago, Count Otto von Bismark insisted that German Capitalism must be "oiled" with the safety-nets of social security schemes, and that is why sixty years later, Dr. Ludwig von Erhard insisted that the market mechanism must be "socially oriented". That is why **both** Franklin Delano Roosevelt and Lord Keynes insisted on strategic State Intervention and a social security network as essential concomitants of a Free Enterprise system. That is why so many democratic socialists sing the praises of the price-mechanism; and in reverse, so many exponents of Free Enterprise call for "the safety-net of social services."

CONCLUSION

We, in India, need Free Enterprise to unleash the gigantic entrepreneurial wealth of our country. We need it to correct the excesses of an over-politicalised, over-planned, over-bureaucratised economy. We need, it to prevent the further global isolation of India and instead make her a global player in the next six to seven years. But, let us reiterate our credo: Gradualism,

Compromise and Compassion must be simultaneously our watchwords. As we said before, and now say it again in conclusion, to combine a passion for rapid economic growth with a compassion for the poor is not to repeat a cliché of socialism — it is only to recall the 'talisman' which the Father of our Nation bequeathed to all of us long years ago.

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

APPENDIX

In our speech we had mentioned that, surprising as it may appear to the ideologues of both the Right and the **Left**, to our over-zealous planners, to our regulation-oriented bureaucrats, there has been over the last century an amazing degree of cases where even the fanatical exponents of socialism, nay even of communism, have **recognised** the necessity of the free-market mechanism, and there has been in reverse a greater number of cases where the proponents of Free Enterprise have argued for a Welfare State.

Right from the very inception when Sydney and Beatrice Webb together with George Bernard Shaw contemplated the founding of the London School of Economics and Sociology, the goal they cherished was not Instant Socialism but Fabian Socialism. In short, they wanted Socialism to come to the poor people not through a revolutionary method, but through a series of revolutionary steps stretching over a period of 15-20 years. In short, the tactics of the Fabian Brothers in their battle against Hannibal were to be re-produced by the Socialists of Great Britain against the abuses of 19th Century Capitalism.

But how striking it is that no less a person than Leon Trotsky, who himself experienced the failure of

excessive direction in the period of War Communism in Soviet Russia, said:

"If there existed the universal mind that projected itself into the scientific fancy of Laplace; a mind that would register simultaneously all the processes of nature and of society, that could measure the dynamics of their motion, that could forecast the results of their interreactions, such a mind, of course, could a priori draw up a faultless and exhaustive economic plan, beginning with the number of hectares of wheat and down to the last button for a vest. *In truth, the bureaucracy often conceives that just such a mind is at its disposal; that is why it so easily frees itself from the control of the market and of Soviet democracy....* The innumerable living participants of the economy, State as well as private, collective as well as individual, must give notice of their needs and of their relative strength not only through the statistical determination of plan commissions but by the direct pressure of supply and demand. *The plan is checked, and, to a considerable measure, realised through the marketEconomic accounting is unthinkable without market relations.* (Soviet Economy in Danger, pp. 29-30, 33; quoted in Lerner, A.P., The Economics of Control, pp. 62, 64)."

Again in reverse, think of the Eminent Industrialists of India who in 1944 framed the now famous Bombay

Plan for a future independent India. Note how vigorously they argued for planning in the initial stages of the economic development of India:

"We contemplate that under the central government there will be a national planning committee in which the various interests concerned will be represented and to which the responsibility for drawing up plans will be delegated. The actual execution of the plans will be the function of a supreme economic council working alongside the national planning committee under the authority of the central government. The co-ordination of the duties assigned to these two committees and their relation to the various provincial and regional governments will be among the most important problems that will arise in connection with the constitutional aspect of our proposals.

The principal objective of our plan is to bring about a doubling of the present per capita income within a period of fifteen years from the time that the plan comes into operation. Allowing for an increase in population of 5 million per annum, which is the rate disclosed by the last decennial census, we estimate that a doubling of the per capita income within a period of fifteen years will necessitate a trebling of the present aggregate national income. This would still leave our economy mainly agricultural in the sense that the greater part of the population would continue

to be engaged in agriculture and allied occupations although the present preponderance of agriculture would be considerably reduced."

Only a few years later, Mino Masani came forward with his thesis of the Mixed Economy **which, at least** for a decade, played a very important role in guiding the destinies of a new independent India. Today, we accept as obvious that the Private and the Public Sectors are both part of the national economy; it was not so clear to Pandit Nehru who lived under the spell of Soviet Socialism.

But, for an excellent economic explanation in defence of the Middle Path, we have to thank the **trio** — Prof. Dublin, Prof. James E. Meade and Prof. W. Arthur Lewis. These proponents of democratic socialism came out with how and why the market mechanism can be integrated with the mechanism of democratic planning. Let us quote Prof. W. Arthur Lewis from his book "The Principles of Economic Planning".

"There are no longer any believers in laissez-faire, except on the lunatic fringe. There are many who denounce planning in fierce language, and who appear by implication to be arguing for laissez-faire, but, on closer examination there are always a few pages in their books which give the game away. *The truth is that we are all planners now. That is not to say that we believe in all forms of planning or in complete central planning.* Laissez-faire can be complete,

or it can be modified by state action at many crucial points. *Similarly, planning can be complete, or it can be combined with a market economy in various degrees.*

In fact, *the central issue* in the discussion of planning is not whether there shall be planning but what form it shall take and in particular *whether the state shall operate through the price mechanism or in supercession of it."*

"The future of the country depends on bold and free entrepreneurship, on people with new ideas being free to back them against all opposition to get what resources of capital labour and raw materials they need without bureaucratic hindrance and to test out the market for themselves. Any form of planning which prevents this permanently, or for long periods, will be the ruin of Great Britain".

Now, let us reproduce two **extracts**, first from the "Economist" of October **29, 1994**, and next from the same prestigious Journal of November **5, 1994.'**

"A strong welfare state can complement, not hinder, more flexible markets by reducing the fear of change..... A major new initiative will transform the systems from a safety net that traps you into a trampoline that you can spring from."

These may sound like extracts from the report by the Commission on Social Justice published* on October 24th, which John Smith, the late leader of the Labour Party, set up in December 1992. Plenty of similar phrases do appear in that report. But the first quote is from the **Mais** lecture, delivered by Kenneth Clarke, the chancellor, in May; and the second is from a speech to the Tory Party conference, in October by Peter Lilley, the social-security secretary.

"If Mam's prediction of a proletariat plunged into abject misery under capitalism has so far been unfulfilled, ***the widening gap between haves and have-nots is causing some to think that Marx might yet be proved right on this point after all.***"

Perhaps the last word should be left to Robert Heilbronder, the eminent American thinker:

"Socialism can still serve as the vision of the society we would like our grandchildren to live in. Such a society might have the level of social welfare of Sweden, civil liberties of Holland, income distribution of Norway, the health care of Germany, the public culture of France and security of employment of Japan. In other words, the collapse of socialism should not put an end to our social imagination".

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

—Eugene Black

HAVE YOU JOINED THE FORUM?

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 and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 501- (entrance fee Rs. 50/-) and Associate Membership fee Rs. 20/- (entrance fee Rs. 10/-). Graduate course students can get our booklets by becoming Student Associates on payment of Rs. 51- only. (No entrance fee).

Write for further particulars to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 209, Bombay 400001.

Published by M. R. PAI for the Forum of Free Enterprise, 235, Dr. D. N. Road, Bombay 400001, and Printed by S. V. Limaye at India Printing Works, 42 G. D. Ambekar Marg, India Printing House, Wadala, Bombay 400031.