

**A BLUEPRINT FOR
ERADICATION OF POVERTY**

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FORUM OF FREE ENTERPRISE

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**“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**

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DR. B. P. GODREJ*

The biggest problems facing India today are *poverty* and *unemployment*. Eight months ago, a new government was formed in New Delhi. People's hopes were aroused but for a short time only. Already, there is strong evidence of manifestations of frustration. As no other large country in the world faces the twin problems of poverty and unemployment of the magnitude as India, the new government's responsibility is very grave. It would do well to bear in mind that ultimately economics rule politics. It is recognised in some quarters that even with half of India's population, everything else remaining the same, the difficulties in transforming India into a welfare state are immense.

When India became free on the 15th August 1947, a tremendous *euphoria* was generated. It was considered to be the dawn. But it is clear as daylight now that the economic dawn is nowhere in sight.

After the end of the Second World War, the common man's lot, especially in Western Europe, improved vastly and rapidly. He was better fed, clothed, and housed than ever before. In developed countries, *economic growth and social welfare* proceeded side by side. This feature gained universal acceptance. The proportion of the national income spent by the state in democratic capitalist countries rose sharply, and thus gave rise to the concomitant growth of the public sector. Indian thinking was naturally influenced by this. In a number of capitalist countries, up to one-half of the national income was spent on the public sector.

* Dr. Godrej is an eminent industrialist. This text is based on a public lecture delivered by him under the auspices of the Forum of Free Enterprise in Bombay on 16th September 1980.

The running of the *public sector* was something entirely new for Indians. Take, for example, the case of the railways. In 1947, India had one of the biggest networks, and several joint-stock companies were owned and run by Britishers. In the financial and engineering management, Indians had no part and no experience. Apart from that, the concept of predominance of the public sector was adopted for ideological reasons, without checking the likelihood of its success under the then prevailing Indian conditions. The question that naturally arises is whether Parliament was enamoured of this idea even before considering whether it was in a position to make a success of it. Whether the government sector of industry was conceived out of envy, as a prominent and responsible industrialist once said in a public lecture, is worth a doctoral dissertation on the part of an enthusiastic youngster. It is pertinent to quote Collins in this context: "When I was young I thought socialism was the mathematics of justice. Now I realize it is only the arithmetic of envy."

Let us now review what characterizes India today. More than three decades after Independence, *half the people are below the Poverty Line*. Most of the other half are also poor. And the Poverty Line is defined as the point below which a worker cannot afford to buy enough food calories to enable him to perform a full day's work. By this definition, India figured in 1968 that 38% of its people were below the poverty line. In 1978, according to official surveys, 50% of the population fell below this line. The following extract is from the MID-DAY of August 5, 1980:

356 million live below poverty line

The Minister for Planning also tells us that

'In India an adult male doing heavy physical labour for more than 12 hours a day gets less than 2,000 calories from his food.'

Those who get less than 2,400 calories a day in rural areas or 2,100 calories a day in urban areas can be considered

among that 356 million. What does less than 2,400 calories a day mean? A study done in Maharashtra some years ago shows that "less than 2,400" can be as little as 940 calories (and people have wondered how someone who consumed so little could be alive to answer the interviewer's questions).

What happens when someone consumes calories below the minimum daily requirement? The Minister for Planning did not go into this question nor did members of the Rajya Sabha think of asking him this question. However, there is information from elsewhere about the effects of malnutrition. Someone found that among 500 middle class children only one had an IQ below 80, but among 500 poor children who suffered serious protein calories malnutrition in their first months, some 62 per cent had IQs below 80. There is another way of looking at calories intake. A daily intake of some 2,250 calories is appropriate according to dieticians for an eight year-old child in a Western country.

In India, an adult male doing heavy physical labour in the fields for more than 12 hours a day gets less than 2,000 calories from his food. The human effects of this have also been described "chronically hungry people are physically less developed and mentally less alert than people who eat enough."

In this connection, we would be wise to heed Bernard Shaw's warning: "Those who minister to poverty and disease are accomplices in the two worst of all crimes."

About 70 per cent. of Indians are dependent on *agriculture*. If the first priority had been given to agriculture, and the second priority to industry, we would have fared much better in every way. As things stand, many of the poor do not have the purchasing power to buy enough foodgrains, the per-person consumption of which is gradually falling with every passing year, although the consumption earlier was always on the low side. A significant conse-

quence of the neglect of agriculture is that the per-hectare yields of most agricultural crops are about half of the world average, let alone the peaks achieved in many countries. If we had provided all the agricultural inputs; when the world-wide rate of inflation was low, even after deficit financing, if found necessary; we would have been a surplus agricultural country, *par excellence*. We should not forget that among big countries, India is unique, in that half of the total area is arable. Nature has liberally endowed us, as no other country in the world. At the same time, like foodgrains production, our oilseeds production would also have gone up, and given a tremendous impetus to another huge agricultural industry.

The project for the irrigation of the whole of India could arouse world-wide interest, provided the country is strictly non-aligned, and the project is so organised that there is no doubt about the creditworthiness. India has the tremendous advantage of a predominantly young and low-cost manpower; it could be a significant complementary granary to the U.S.A. to feed the future world. This could be the major scheme to relieve the chronic unemployment. The finance would be forthcoming, because a real shortage of foodgrains in the world as a whole is feared in the not-too-distant future.

The other front on which we have failed is *education*. It always got a low priority, possibly, because the economic growth was too low to fund the education department from the national savings. It is said that there are more illiterates now than in 1947. This comes in the way of the birth control programme, as it is very difficult to convey any message to the illiterates. As compared with the achievement of other countries, ours, in this field also, pales into insignificance. Economic growth and the reduction of illiteracy help in overcoming the problem of population growth.

According to the industrial policy of the Government of India, the accent was on the development of the *govern-*

ment sector of industry. But as things stand now, it is unable to deliver the goods. It is perennially deficient in the supply of energy, i.e., coal, petroleum, and electricity; railway transport; steel, etc. After the nationalisation of banks, the service has deteriorated, and as the element of competition has disappeared, the bank employees realise the monopolistic position of the banks and take advantage thereof. All the bank employees going on strike at the same time is a new experience. The power plants, in general, operate at less than 50% of their capacity. In a poor country, this raises the price of electricity unduly. The power supply is so bad that most of the private sector industries have installed captive diesel generator sets for at least half of their requirement. A former central Industries Minister had deprecated such installations as inefficient. Of course, there is nothing like an efficient all-India power grid. But, having failed to achieve this, generating one's own power is certainly better than reducing production. Adopting the former procedure, reduces the return on investment, of course, but is certainly the lesser of the two evils. The ministers, unaccustomed to the government sector of industry, and without caring to find out how it functioned in advanced countries, considered it their private preserve, indulged in influence peddling, and managed to overstaff it to such an extent that it would not surprise many if the burden of excessive personnel is carried even to the present day. Apart from this, big government sector units have been operating somehow without chief executives. The return on the huge investment in this sector is woefully inadequate for the requirements of nation building.

The Union Finance Minister, Mr. R. Venkataraman, has to say the following about this sector: "The public enterprises have absorbed a very large part of past resources — the total investment in them is of the order of Rs. 15,000 crores and they should have generated commensurate surpluses which could contribute to the resources needed for development. Their actual performance is well below expectation and there is an urgent need for very substantial improvement."

But this sector was never made conscious of adequate return on investment. Actually it was job-oriented. A proper system of accountability could not be evolved, there being no delineation of responsibility. On the whole, the manufacturing part of the sector incurs losses. When production commenced, the initial losses were attributed misleadingly to the gestation period. Teething trouble for a few years can be tolerated. But, even now, after many years, it incurs losses on the whole. It is too well known that public organisations work less efficiently than private ones, which are eliminated if they are not competitive; and that management and stakes are divorced.

The protagonists of the government sector do not seem to accept the responsibility that this sector should deliver the goods.

The confiscatory rate of taxation of individuals is a significant cause of our present economic malaise. The corporate tax rates in India are the highest even among developed countries. All radical changes, without a previous successful example, are fraught with danger. Even when the stock exchange collapsed, the then Finance Minister refused to heed the warning; he considered it irrelevant. The unduly high rate of personal taxation led to massive evasion of taxes and unaccounted money. And the honest ones are unable to take the inflation in their stride. Whoever the person may be, excessive taxation does not let one enjoy the fruits of one's labour.

The Monopolies and Restrictive Trade Practices Act has come significantly in the way of the development of the private sector, which is starved of industrial licences, with the result that those units which have all the resources for growth are hamstrung. The net result of the unimaginative industrial policy is such that the gains to the parties whose interests government ostensibly purports to safeguard are imaginary, but the loss to the country is real. One thing the government should bear in mind is that, when wealth is created for the nation, it is bound to percolate, under the

existing conditions, to the masses, if the laws of the land are properly enforced.

The miserable economic growth at present is best highlighted by the following remark of Mr. Robert McNamara, as the President of the World Bank: "The per person income in the U.S.A. rises more in a single year than it will in India in a century." One should bear this in mind when one considers the remedy for Indian conditions.

The slums in India are among the world's worst. And the sight of destitutes is heart-rending. All this malaise seems to have been caused by a *very poor economic growth*, during the three decades after Independence, of only a little over one per cent, per annum average real (that is, after accounting for inflation) per person. This was too low to fulfil the aspirations of the people, with the result that discontent bred, many Third World countries overtook India, the real per person income in this country is by far the lowest among large-sized democratic countries, and the people are unable to take the inflation in their stride. On the other hand, there is a cadre of trained personnel in all fields, which is nowhere near fully utilised, because of the poor economic growth. Also, among the less developed countries, India's position is unique in that it has a well-established industrial base both in the private and the government sectors. As a result of the lopsided development, India is among the top twenty in the size of industry, and among the bottom twenty in per person income.

THE SOLUTION

To solve our problems, the highest priority needs to be given to *birth control by persuasion*. But, it is a fact that it is very difficult to keep down the population when there is much illiteracy and poverty among the masses. A special high-powered ministry may be appointed to tackle the population problem. Huge funds should be made available. Well-paid honest social workers should be recruited, and the people of India should see to it that the money earmarked for this programme is spent efficiently and hon-

estly. The special ministry should organize systematic training programmes which should be given the importance due to them. This field cannot be left to publicity conscious social butterflies, but should be in the charge of serious people who understand the problem in depth. The goodwill of all important political parties should be sought for this programme of national, nay, global importance. To use Newton's famous words, each individual's contribution to the programme may be of infinitesimal importance, but it is infinitely important that the people of India implement the programme religiously.

The second priority should be given to a sound economic policy. In my opinion, only that *economic policy* can be successful which is framed within an average real (that is, after accounting for inflation) economic growth of at least three per cent per annum per person. One may well question how we can achieve in future three times the actual growth in the past. The answer is that the envisaged figure is by itself modest but could not be achieved because of the system we adopted. In the case of India, one cannot put the blame on the people, but only on the economic system which stifles initiative, obstructs activity, saps vitality, leads to corruption, etc. Medicines cannot cure our ills. What we need is surgery. In future, the free market economy is necessary, otherwise it would be like hoping against hope. And this should be within the framework of democratic capitalism which has worked wonders in many countries, and which has unfortunately not even been given a trial in India. Just as there is only one optimum move in chess, there is no alternative. The trouble in India is, as the growth diminishes, the squeeze on the private sector increases. No one can say that the present economic system was not given a long enough trial. The biggest threat to the private sector is the loss of freedom of action. The inefficient government sector can be converted into the joint sector to ensure adequate return on the huge amount of investment of the taxpayers' money. Technocrats would make good chief executives. They could be recruited from any part of the world. Acceptance of responsibility and

deep knowledge of the subject matter should be the criteria for engagement.

In the beginning, they would have to be engaged on commission basis, considering the conditions prevailing in this country. We are at present socialized to such an extent that an economic downturn now hits harder at corporate profits than at wages. Some people forget that the free market economy need not lead to exploitation by the developed countries for the simple reason that there is acute competition among sellers of know-how.

Japan and Russia, as of today, represent two different economic systems. Early in the twentieth century, they were at about the same stage of economic development. Japan went the capitalist route and acquired Asia's highest living standard. Russia went the communist path and has never produced consumer goods of quality or sufficient agricultural output.

In the competitive economic system under democratic capitalism, salaries and wages and other earnings correspond to the contribution made by the individuals to the national product. Social justice is in-built in the system.

The following extract from the leading article in the "Indian Express", Bombay, dated August 4, 1980, is worth reproducing in the context: "Taken to its logical conclusion, it denies that a free democracy can achieve desirable socio-economic progress and genuine equality for its citizens. This pernicious philosophy must be totally rejected. In our own times there are many instances of more and stabler progress being achieved under democratic conditions, than under absolutist regimes. The choice is not between social progress or human rights but of true social progress which respects human rights."

The roadblocks at present are frightening. We cannot have satisfactory industrial or agricultural development the present way. Under the free market economy, competition

would increase, prices would come down, more efficient use would be made of energy, there would be complete freedom of action to create wealth for the nation, export industries would surely benefit, etc. At present, before creating wealth, people are talking about redistribution. In short, there would be a metamorphosis. India, which is at present a rich country inhabited by poor people, would transform herself into a country of well-off people. And, a bright national economy would relieve the all-round gloom.

So far, such an idea was banished. The powers that be wanted thereby to safeguard the interests of the underdog. But the underprivileged would benefit the most by this change. In all democratic capitalist countries, the co-existence of bigger and smaller factories is taken for granted. The dependence is mutual. Only a novice in a large-scale industry would entertain the idea of entering a small-scale industry, for the simple reason that the scale of overheads is entirely different, and, therefore, would burn his fingers. Under the proposed dispensation the entire work force of the country could be mobilised. The national water management scheme would by itself be a huge project, and very important from the global point of view. In our nation-building activity, we are certain to obtain the cooperation of all the advanced nations, because it would be in mutual interest. And then, our motto could well be: Only the best technology is good enough for us. To substantiate this, I am quoting two news reports. The first, of July 1978, was as follows: A rise in the economic growth rate in non-oil-producing developing countries by three per cent, leads to a rise in the growth rate in the member countries of the OECD by one point. The second, emanating from Bonn, of May 15, 1979, was: According to experts, for every one Mark sent to the Third World as developmental assistance, one-and-a-half Mark returns to the Federal Republic of Germany. In this connection, it is worth quoting Ludwig Erhard, the architect of the German Free Market Economy System: "Mobilise the men and the money, and they will make the country strong."

The two countries most affected by the Second World War were Germany and Japan. The same two democratic countries were the most successful in the post-war period. This success is attributable to the economic system which they adopted. The public sector in both these countries is also efficient, as a corollary.

The following is extracted from "TIME" of April 21, 1980 as *the two prevailing economic systems are compared* objectively and on the basis of results (party theoreticians cannot be expected to admit their mistakes):

In a surprising number of cases, there has been a movement back toward market-oriented economic policies and growing disillusionment with welfare states that cost too much and deliver too little. Says Emile van Lennep, head of the Organization for Economic Cooperation and Development: "It is quite clear now that in the industrialised democracies we let the success of the 1960s go to our heads. In responding to the rising economic and social aspirations of our people, we allowed our economies to become overloaded, overregulated and insufficiently profitable."

But the situation cannot be solved simply by aid or "reparations" to the poor. True, free enterprise governments must be ready to help through development aid and also by opening their markets to more Third World exports of both traditional raw materials and new manufactured goods. As former West German Chancellor Willy Brandt concluded in a study done for the World Bank this year, rich and poor nations will mutually benefit from a progressing world economy; stagnation and protectionism will ultimately harm both. Yet underdeveloped countries must also help themselves by hard work, realistic economic policies and guarantees for outside investment.

The multinational corporation, which Father Hesburgh calls "the colossus of capitalism", should be a leading force in the stimulation and redistribution of the world's wealth.

Says Hesburgh: "The multinationals are among the greatest resources for transferring technology and education. Most do it well; some are exploitive. But rather than pillorying them, we ought to be using them."

At their best, multinationals are the ultimate exporters of capitalism. By creating jobs, training technicians, grooming managers, awarding contracts to myriad local suppliers, and selling shares to local investors, they create a capitalist middle class. That is not their primary intent, of course, but they usually do good while doing well. In the 1980s General Motors Chairman Murphy sees even larger profit potential in the yearning new markets of the Third World than in the advanced nations, where growth will be slower.

The multinationals, of course, will also be obliged to prove that they are not just carpetbaggers who despoil the environment, exploit labour and then close up shop once they have reaped their profits. Host governments are increasingly fearful that multinationals can quickly shift plants, jobs and capital from one country to another to extract the maximum profit and the most favourable taxes. To ease these anxieties, many multinationals' officers are willing to accept a convincing international code of conduct, pledging them to reinvest much profit and generally to be good corporate citizens in developing nations.

Contemporary economic policies have attenuated, though not eliminated, the peaks and troughs of the business cycle. Recessions are not only unavoidable but often beneficial — despite the pain they cause some individuals — to society as a whole. They can purge the system of excesses, failed products and mismanaged companies. Since World War II such slumps have been less severe; social programmes like unemployment insurance mean that they are not as painful as in the days of unbridled capitalism.

While Communist theory assumes that people are instinctively good and co-operative, but in practice does not trust them to be free, capitalism has never had any such

illusions. Adam Smith maintained that among the most powerful forces in Society was "the desire of bettering our condition." Capitalism seeks to use this desire to benefit the whole society.

Collectivist systems have failed to achieve their professed ideals. Pure Communist societies, from 19th century utopian communities like New Harmony, in Indiana, to the hippie communes of the late 1960s, have struggled with the reality of individual self-interest. Sixty years of Soviet efforts to make workers more productive and innovative through slogans, medals, bonuses and threats have not overcome the basic problems of the U.S.S.R.'s inefficient agriculture and erratic industry. Bertolt Brecht, the Marxist German dramatist, said sardonically after the 1953 workers' riots in East Berlin that in view of the system's problems with its subjects, it might be easier to "dissolve the people and elect another."

The type of material goods produced by capitalism, or by any economic system, returns to what Lenin called the question of "who-whom." Who is to direct and dominate whom? Where is society's Solomon? Who is to decide that this year a nation should produce heart valves rather than vacation houses? The market system provides the most democratic answers. Rather than a government planner's dictating what a society should produce, consumers themselves decide what they buy. They vote in the marketplace. This is not invalidated by the fact that the votes — and the market — can sometimes be manipulated. Capitalist bosses, for all their power, have far less real sway over people than Communist planners.

For all capitalism's proven success in producing material prosperity, the ultimate justification for the system does not rest on its output of cars or cosmetics. Capitalism's fundamental rationale is that it permits and promotes freedom by enhancing the rights of the individual and limiting the power of the state. While some capitalist countries are not democracies, no Communist or totally socialist economy has remained a democracy for long. And every demo-

cracy practices some version of capitalism. The reason is clear: political freedom is impossible without economic freedom. As the British poet and essayist Hilaire Belloc noted, "The control of the production of wealth is the control of human life itself."

During the past year a group of American, Canadian and British theologians conducted a long-distance debate on the moral justification of capitalism. The majority concluded it offers greater moral freedom than any other economic system. Said Anglican Edward Norman: "Capitalism is full of minor evils, existing beneath the umbrella of its overall good effect of preserving individual freedom. Capitalism has a good case to argue. It is the case of freedom." The fact remains that throughout the world, millions prefer security to freedom, or think they do, never having known real freedom. Indeed double-think Communism teaches them to redefine security as freedom.

Inflation and the other problems of the new age of expensive and scarce energy will place tremendous pressure on Western societies and their economies. The transformation in cities and companies, in living place and work place, will be on a scale not seen since the Industrial Revolution. No amount of rhetoric, false promises, or chases after demons of whatever stripe will help to confront this transformation. Increases in living standards will be moderate, and growth will be slower.

While tackling the herculean task, capitalism must demonstrate anew the daring and flexibility that were once its hallmarks. Plainly, capitalism is not working well enough. But there is no evidence to show that the fault is in the system — or that there is a better alternative. Though neither comfortable nor easy, free enterprise contains the protean potential that will be needed in the coming difficult years. For all its obvious blemishes and needed reforms, capitalism alone holds out the most creative and dynamic force that any civilization has ever discovered: the power of the free, ambitious individual.

As we are primarily interested in a sound Indian economic policy, it is very interesting to note Mrs. Indira Gandhi's views on public enterprise at the start of her prime-ministership. These are stated in a letter to Mr. Minoo Masani and mentioned in Mr. Manohar Malgonkar's recently published book "Cue from the Inner Voice."

"Faulty planning with regard to concept, size, location, raw materials, design, choice of processes, equipment, personnel, contractual arrangements, supervision, time schedules, etc., have resulted in cost escalations and delay.

"This is not all. Overcapitalization, overstaffing, incidentally adding to township costs, inadequate work-study, lack of dedication, application of secretariat codes and procedures to commercial undertakings, system of financial control and audit and the lack of a well-thought personnel policy constitute another set of problems of public enterprises."

On their onward march, Indian industrialists would do well to recall Othello's assertion: "We have done the State some service, and they know it." In this connection, I am quoting Mahatma Gandhi: "The violence of private ownership is less injurious than the violence of the state."

The eradication of poverty cannot be an end in itself, as most countries have succeeded in it. The desideratum should be the happiness of all the people in the country in the shortest possible time. To achieve this, the art of living should be introduced to the children from an early age, side by side with real economic progress. This will ensure that future generations lead a good life. The care taken should be such that all the basic human problems are tackled, especially the problems of world-wide insane violence.

Every child should have Freedom, Bread, and Enlightenment. Freedom is considered even more important than Bread, because otherwise a tyrant can deny Bread, as history teaches us. Enlightenment should be such that the

younger generation should not have any scope to put the blame on the older generation. Teaching self-restraint should be an integral part of the enlightenment. The youth should be reared in such a way that all the safety valves of their bodies are intact. This way, their future will be in their hands. Such children can impart the benefit of their experience to others. We can thus prevent wastage of humankind. John Dewey's fervent wish "What the best and wisest parent wants for his child, the community should want for all its children" would become a reality. We should not forget that it is the system which creates deviates. With the introduction of the right kind of enlightenment, it is hoped to eliminate violence, and also the degeneration of mankind. At present, even in affluent countries, happiness is rare.

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

“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.

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Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.



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