

BASIC PRINCIPLES OF PLANNING

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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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When in 1977 the vast masses of this country accomplished a ballot box revolution, expressing their urge for basic human freedoms and the restoration of the Rule of Law, there was also a rekindling of the hope for a better life and release from the thralldom of poverty. After 30 years of freedom, the problem of poverty had not only persisted but had become aggravated as indicated by the growing number of people sinking under the Poverty Line; unemployment was increasing at a pace which clearly signified the failure of the governmental policy to generate economic opportunities for the masses; soaring inflation was eroding the purchasing power of the Rupee, thus making a mockery of the much-needed virtues of hard work, savings and investment; basic amenities like clean and adequate drinking water and primary education were still a matter of dream for millions.

Since the Government at the Centre had been formed by a new political party, for the first time in 30 years of independence, there were naturally expectations that the old and dirty clothes worn for 30 years would be thrown off and the country would be clothed in freshly tailored economic policy of a pragmatic and realistic nature.

Have these expectations been fulfilled in the past one year? Unfortunately, the answer is a disappointing "No".

* The author, eminent industrialist and public worker, is the President of the Forum of Free Enterprise. This text is the address to the 22nd annual general meeting of the Forum in Bombay on 18th September, 1978.

True, there have been some basic changes in the Economic Policy of the Government which are for the better. To cite them briefly; First, the direction of investment has been changed. The priorities have shifted from heavy industry to agriculture and rural development. Considering that agriculture is our basic asset, and that 70 per cent of people live in rural areas which have been cruelly neglected in past 30 years, this shift in emphasis was long overdue. While heavy industries are no doubt required, to have continued to invest heavily in them alone to the neglect of agriculture and rural development would have been disastrous.

Second, emphasis has rightly shifted to employment orientation. The most modern and sophisticated technology are required and unavoidable in our economic development. But to adopt them blindly, without consideration of their impact on employment, was to incur huge human costs for small economic gains. Encouragement to projects and policies generating more jobs was, therefore, a welcome change.

Third, there has been a shift towards small, cottage and village industries. The concept of a "tiny sector" has also been evolved. This is also a welcome development because of the generation of more jobs in this sector, and the effect such a policy has on dispersal and decentralisation of both location of industries and economic power. We shall consider the actual results of this policy and its impact on the economy later on.

Fourth, decentralisation of economic structure and power has been another objective. One aspect of this policy has been decontrol to remove the structural rigidities of the economy. Removal of food zones and decontrol of sugar are but two examples of the new policy.

In principle, one cannot quarrel with these changes. They are good for the country. But then why is economic growth flagging? Why is there virtual industrial stagnation and lack of dynamism in the industrial sector? Why is the price situation still potentially explosive? Why is unemployment growing? And, above all, why has a sense of frustration gripped the people?

Unless these questions are answered, a new and dynamic Economic Policy cannot be evolved.

The new economic policy is basically sound. Its thrust is in the right direction. However, a faulty and inadequate approach in working out its details and in implementing it has resulted in growing disappointment with the policy itself. The ghost of the past policy still haunts the new Government. It has not been able to clear ideological deadwood nor remove bureaucratic rigidities.

In the first place, the Government does not seem to understand the basic principles of planning, viz., strict priorities and its own limitations as an instrument. The Government, no doubt, possesses the coercive power of the community which makes it all-powerful, but alas, not omniscient. The Government is not the repository of all wisdom, however powerful it might be. Neither does it have unlimited capacity to do all things efficiently and economically. It has to understand, first of all its own limitations in terms of knowledge and capacity. When it fails to do so, it spreads itself thin over a vast area and thus becomes ineffective in most if not all the things it does. In the process, it wastes the scarce resources of the country which it has mobilised, much of it from among some of the poorest people in the world.

The priorities are clear. In addition to defence of the country, there should be law and order. Unless that is ensured, no civilised life, let alone economic growth, is possible. Law and order have not received the priority it should have. A sense of uncertainty and danger to life and property hovers over the people. Life in the capital city of the country itself has become insecure. If under the very nose of the Government, the people move about with the fear of a noose around their neck put by criminal elements with impunity, then one wonders how such a Government can become effective in economic planning.

Since law and order is not a commodity purchaseable in the open market, the citizens look up to the Government for its provision. In its anxiety to do many things, there has

been neglect of this area by the Government. Unless utmost attention is given to maintenance of law and order, and the provision of an efficient and expeditious judicial system, all talk of planning becomes meaningless.

The infrastructure of the economy which requires priority is also inadequate because it has been neglected ever since planning started. It requires priority attention before anything else is done. For instance, recurrent tragedy of floods is an annual reminder of the failure of planning. The country is blessed with plenty of rainfall and needs all the water it can get for its agriculture, industries and for every day use by people. Yet, on the one hand there are about one and a half lakh of villages out of 5½ lakhs which are without any drinking water supply after 31 years of freedom; and three-fourths of agriculture has no benefit of irrigation while most of the rainfall finds its way to the seas.

On the other hand, floods have become annual. The only response to it from the Government is a routine one—an aerial survey by some dignitary of the Government. Floods and famines in India today can be said to be virtually manmade because they arise from neglect of natural conservation of resources. Forests are allowed to be felled down indiscriminately, and nothing is done to desilt the rivers whose rising riverbeds mean overflowing of its banks during the monsoon. Small irrigation and other means of water regulation and utilisation have not yet received sufficient attention. These are not problems which can be solved on a part-time or casual basis. Along with the building of national highways and rural roads, provision of primary education and rural marketing facilities, they constitute the first charge on the financial and managerial resources of the nation. The plea of lack of funds is an untenable one especially when one sees enormous waste of funds in the Public Sector industries and low priority items like five-star hotels built by Government.

In the words of an expert on this subject, the neglect and consequent damage are truly frightening. Writing in

“Indian Express” of 11th September, 1978, Mr. B. B. Vohra points out: “It cannot be denied that the management of our vast land and water resources has been far from satisfactory, or else 40 per cent of our people would not today be living below the line of absolute poverty. By contrast, China has less than 80 per cent of our arable land resources but is producing more than twice as much food as we are and has succeeded in solving her problems of hunger and destitution. This is mainly due to the much better use she has made of her natural resources even though these are far smaller than ours.

“The visible deforestation of the Himalayas, the growing denudation of our water sheds and the frequency with which we are being visited by floods are evidence of the way we have mismanaged our land and water resources. It has been estimated that out of a total “reporting” area of 304 million hectares as many as 90 are suffering from water erosion and another 50 from wind erosion. The area which is susceptible to flooding is in the region of 20 million hectares while another 12 million hectares have been affected by water-logging and salinity. There are also at least 10 million hectares which have access to canal irrigation but are producing only at a fraction of their capacity because they have yet to be provided with all the facilities — such as land levelling, field channels and drainage systems—which are required for the controlled application of water to soils and for saving them from water logging. This makes a total of 182 million hectares, equivalent to 60 per cent of our entire land surface, which require urgent attention if they are to be saved from further degradation and helped to improve their productivity.

“The neglect of our land and therefore also our water resources—for the management of the one is absolutely not possible without the management of the other—has indeed brought the country to a situation which is serious beyond description. For even with the best will in the world and the most vigorous efforts imaginable—neither of which are in evidence today—it will be decades before we can arrest and therefore reverse the massive degradation which our soil resources have already suffered.”

It is really lack of will and lack of appreciation of a sense of priorities which are at the root of the present misery of the people.

In the meantime, while these basic priority items are neglected, what are the Governments at Centre and States engaged in? Low priority items like the making of bread, beverages, running buses and the like. These are activities which could and should be done by private citizens. It is a betrayal of the interests of the poor for governments to waste their scarce organisational skills and community's resources on these low priority items while neglecting basic duties.

The objective of rural development is served better if governmental activity is directed to priority sectors like roads; irrigation, flood control, warehousing and marketing, primary education, water supply and conservation of natural resources. These are also economic activities which generate millions of jobs for the illiterate and semi-literate at a level of technology familiar to them. Removal of poverty boils down, in the ultimate analysis, to the giving of job opportunities and better technology to people on the bottom rung of the economic ladder. This purpose is not served by Governments running bakeries and buses.

Excise concession to small units should not result in making products of larger organised units uneconomic in the market. Economies of large scale production and economic viability of small units should not be overlooked in artificially boosting up small industries.

The move to freeze capacity in some consumer goods items in organised industries and eventually to dismantle them in order to have the field open to small or cottage industry sector is fraught with serious consequences. Apart from economies of scale, the biggest handicap of small or cottage industries is lack of scientific marketing. In a country of the size of India, more than production, the technology of marketing deserves closer attention. Any artificial boosting of cottage and small industries without marketing support will result in starvation of consumer goods markets and black

marketing in those items. In this connection, the recent step to associate three large industrial units with marketing of small industry products is a practical one.

There is a good deal of confusion on the role of big and small industries. There is no basic antagonism between them. The "either", "or" equation does not arise. Both are part of an integrated economic structure in a country of continental size that India is. They are inter-dependent. Big units give rise to many ancillaries, and the latter in turn draw upon large industries for critical intermediates, and machinery. Big, small and medium size industries have to go hand in hand. Any artificial separation of these is bound to be harmful to all of them and the overall economic interest of the country.

The present policy with regard to big industry needs a second look. Big industry is always a convenient political whipping boy. Does any good come out of it? It is conceptually wrong to dub some business houses as "monopoly houses". Monopoly means total control of the market. In this sense, monopolies are bad. However, the only monopolies in existence are in the state sector.

What are described as big business houses in our country are pygmies while compared to international firms. When inflation and the potential of the country are taken into account, any growth in their asset is insignificant. The artificial classification of industries with assets of over Rs. 20 crores as monopoly houses is an economically unsound proposition, causing a lot of damage to economic growth. Energies of these houses are wasted over needless activities like complying with provisions of the Monopolies and Restrictive Trade Practices Act instead of being used on increasing production and expanding the economic base of the country. At some future point of time, looking over the past, the people of this country will wonder how and why shackles were forged and applied to dynamic growth entities, thus defeating the very objective of rapid economic growth. The possibility of political misuse of economic power arising from size can be easily tackled by modern

governments. The problem of concentration of economic power is a bogey raised to scare the public into accepting uncritically whatever is said of or done to big business houses, because democratic societies have found ways and means of constantly diluting economic power without disturbing natural growth of different sectors in the economy. Democratic socialist countries like Sweden and West Germany offer classic examples of this.

A new dimension has been added to this economic scene. In recent months, a campaign against business families has been started. If economic power is misused by business families for personal aggrandisement, then that needs to be condemned and also checked. The Government has taken over for itself enormous power under several laws. Their proper application by itself will ensure that end. But to carry on a campaign against business families will cause a setback to the entire economic front. It is not only big industry but also small and medium size ones which are run by enterprising families. With constant talk of denigrating business families, the entrepreneurial spirit is curbed. The penalty is paid by the country at large, because, all said and done, the art of creating wealth is a rare one and needs to be fostered in public interest. A marked shift to enterprise of the people even in communist countries, and their eagerness to invite help from abroad in order to hasten economic growth should be a pointer to trends in statecraft.

There is no antagonism between family business and professional management. When family business expands, professionalisation of management becomes inevitable. The rapid growth of a professional managerial class is a testimony to this. Another phenomenon which is overlooked is the training which professional managers get in sophisticated industries which enables them to start their own ventures. In other words, family business houses not only develop a professional managerial cadre but also act as an university to train new entrepreneurs from among the professional managers.

It is also puzzling to note that while on the one hand there is emphasis on growth of a professional class, at the same time there is a campaign against this class also. Managerial remuneration is frequently criticised and there is an attempt to downgrade professional jobs. If this attempt succeeds, the consequences are bound to be harmful to the economy and the country. First, there will be a growing migration of professionals from India to other countries which reward their skills adequately. Second, as in politics there is bound to be considerable underhand dealings and perquisites to make up for low salaries. In a democratic society, it is better to have an open system of remuneration than a hidden one.

Since a new theory has been propounded that the remuneration of private sector managers should be brought down to the level of Public Sector ones, an examination of the working of the public sector is appropriate. The maladies of this sector are clear and need to be cured immediately in public interest. Steps which can be taken easily to improve their performance are:

First, the Government should sell 49% of its shareholdings to Public Sector employees and the public, and list these shares on stock exchanges which will reflect their real worth. Moreover, annual general meetings will serve as a healthy check on their functioning. The Government will also benefit in that it can withdraw a huge chunk of capital locked up in these enterprises and use that money for more essential projects like provision of roads, drinking water, primary education, flood control etc.

Second, Public Sector units should be stripped of their monopoly character. They should be subject to competition. This will not only benefit consumers but also lead to more efficient use of resources by these units. In this context, the step taken by the Government to remove 10% price advantage to Public Sector units is a healthy one.

come by the Union Government through its constitutional powers over them because of loans and grants. It is lack of will rather than of means which comes in the way.

The existence of octroi, which is universally described as the most obnoxious form of taxation, and which leads to corruption is a testimony to the lack of seriousness on the part of politicians on the question of economic development.

The question today is not mobilisation of economic resources, but their proper utilisation. Do the Governments at Centre and States have the capacity to spend monies properly? Cost consciousness should become the watchword of public expenditure before more taxes are levied on the public.

Our scarcest resource today is time. It is running out. So is the patience of the people. The path of prosperity is well charted out and known. Do we have the will as a nation to march on that path to prosperity and social justice or continue to wear blinkers of ideology and apathy while masses wait for the bread and employment?

(The contents of this booklet may be reproduced provided due acknowledgement is given to the Forum of Free Enterprise).

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

—Eugene Black

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Published by M. R. PAI for the Forum of Free Enterprise. "Piramal Mansion", 235 Dr. Dadabhai Naoroji Road, Bombay-1, and printed by B. D. Nadirshaw at Bombay Chronicle Press, Sayed Abdulla Brelvi Road, Fort, Bombay-1.