

BUSINESS-GOVERNMENT UNDERSTANDING

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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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By

NAVAL H. TATA*

In a mixed economy where Private Sector has a pre-defined role, the primary duty of any Chamber of Commerce is to establish, maintain and activate the relationship between Government and business. This service of the Chamber is of vital interest to business. In fact, the subject of Government-business relationship somehow evokes intense debate and discussion in economic and political circles.

In view of widely differing opinions on the subject, it is difficult to assess how far relationship of business with our Government is as cordial as we would wish it to be after three and a half decades of national government. If it is not, could it be through differences purely ideological? If it is not due to differences of ideology, could it be due to complex web

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of Government-imposed laws and regulations coupled with tax policies which run counter to the aspirations of the business community? One should not harp on the issue of ideological differences.

If businessmen are worried about Government-imposed laws and regulations, then let them consider to what extent, through a new spirit of co-operation and sharing of responsibility, the business community and Government can help the country in achieving the eradication of poverty and full employment. In order to achieve these objectives, they have not only to control inflation but also to accelerate industrial growth in order to enhance India's competitiveness through higher productivity to augment our exports. They could then attain economic self-sufficiency to an extent possible, consistent with our natural resources. To achieve this, the first step is a meaningful dialogue between Government and business. Unfortunately, despite existence of so many Chambers of Commerce and multitude of seminars and copious utterances of Ministers from the Centre and the States, there is a wide gulf of misunderstanding between business and Government. In addition, there is a certain amount of Government prejudice bordering on suspicion against the private sector.

In this context, businessmen should do some introspection to analyse and find whether there is any excuse for the atmosphere of mistrust and suspicion. Knowledgeable persons say that there is an unmistakable feeling among senior bureaucrats and

heads of public sector and financial institutions that the private sector has a tendency to take government for a ride. They seem to get that impression judging from private sector's attitude in asking for more and more concessions. They also feel that businessmen do not respond and react favourably to liberalisation policies conceded by government. Regardless of whether such criticism against private sector is justified, exaggerated or baseless, let business assume that perhaps a few in industry **may** be guilty of it. To that extent, some effort on the part of the business community of soul-searching will not hurt it.

It is the duty of Chambers of Commerce and the Secretariats of various ministries in national interest to analyse the situation, in order to trace the causes of such misunderstandings. That apart, the business community on its own should also through Chairmen's statements and Directors' reports, in a dignified manner endeavour to pinpoint areas where they feel that through Government's policies, the country is missing its targets in terms of major goals.

Strangely enough, recently there was a scathing attack on business organisations. "Thanks to the conflict over the non-resident investment policy, a public campaign, exposing the coteric-character non-professionalism and dominance by the money bags over some of the prestigious all-India business organisations, has been launched. The small-scale industrial sector too has joined the struggle to protest over its neglect in these businessmen's trade unions," said

the author. He added: "This is because these organisations exercise considerable sway over the formulation and implementation of critical economic policies, like the budgetary and taxation policies, industrial policy, monetary policy and foreign trade policy. "If there could be Draconian laws dealing with every aspect of workers' trade unions, why should there be a free for all with obvious upper hand for the most powerful when it comes to organisations of traders and industrialists?" the author asked rhetorically.

If these charges against Chambers of Commerce have any justification, then according to the author our Government's economic policies are completely under the sway of business organisations. Furthermore, according to him, the small-scale industrial sector is suffering in many ways at the hands of large industrial houses. As a remedy, he questions why there are no Draconian laws like those dealing with trade unions to control and regulate business organisations.

As for the alleged Draconian laws against trade unions, in almost the entire Third World, India has the reputation of trade unions enjoying far more freedom than any other country in the region. The author has possibly in mind the Essential Services Act and the National Security Act, regarding which trade unions have been conducting a perpetual tirade. As for the former, most advanced and democratic countries like USA have similar enactments as evidenced

by President Reagan terminating the services of Air Controllers, who dared to go on an illegal strike.

As for the NSA, I have repeatedly pointed out that this enactment is not **exclusively intended** for use against trade unions but a safeguard against any Indian who threatens the security of our country — may he be a politician, lawyer, industrialist, a doctor or a trade union leader. Only last week, our government arrested a Vanaspati Manufacturer under this Act, since edible oil in his possession had a trace of beef tallow. As such the author of the attack on trade organisations seems to be making martyrs out of trade unions, either through a mis-statement or unintentionally through ignorance of true facts. In a similar fit of temper, could not the large houses be justified in describing MRTP as a Draconian enactment? As for exploitation of small sector, many large firms like TELCO, Bajaj Auto and other large manufacturers have for years encouraged and established hundreds of small entrepreneurs by buying their products. It is, therefore, surprising to find large houses being accused of exploiting the small sector. More than that, apex bodies of chamber of commerce, after due investigations, should challenge the wrong statements and prevent misrepresentation of facts.

To combat such propaganda, Chambers of Commerce, as a measure of general policy, should endeavour to encourage and enrol as many small-scale units as members as possible. If necessary, a special category of membership with small subscrip-

tion be created, in order to include small entrepreneurs. It is in the ultimate interest of business organisations to let small industries join in representations to government regardless of some inherent conflict of interest between the two.

In my experience, I have never had a feeling that our government has ever claimed that it has greater wisdom and better judgment than private sector, in areas of trade, commerce and industrialisation. Yet it is needless to prove that in recent years, there is a growing realisation that a number of well-intentioned government programmes can and do fail due to some mis-calculations or mis-conceptions, as they do so often in the projects of the private sector. Sometimes, it is painful to observe that a number of well-intentioned laws and regulations evolved by government far from solving a problem in view, create further difficulties far worse than presented by the problem sought to be solved. Thus, the resulting cobweb of laws and regulations, coupled with unimaginative tax policies, take a serious toll of national goals. As a result, we are sometimes faced with greater inflation and more unemployment with declining exports, with static productivity.

Hence, through better understanding between government and business, is it possible, through a judicious approach on our part, to remove or secure relaxation of a number of enactments and regulations of a kind which create unproductive paper work and yet fail to achieve the results expected. Would it not

be possible to attain the goals of the decade by laying aside age-old prejudices against each other and embark on a new spirit of co-operation, by both sides sharing the responsibility of attaining such goals?

This kind of co-operation can benefit both government and private sector, but it is only possible if there is a meaningful dialogue between the two. In doing so, both should be ready to shed certain prejudices and obsessions in their thinking, in an endeavour to present a harmonious approach is so very necessary, in order to produce the desired results. There have been certain misconceptions in our attitude towards government as much as there has been some inherent prejudices in the heart and mind of government which needs to be cleared.

Assuming that both sides sincerely believe in a change of heart, in an honest endeavour to help each other, what are the problems we could present to government which need some rethinking and, therefore, ripe for review. Since our government is harassed and busy solving a multitude of most difficult and complex problems, dealing with internal security, foreign affairs, elimination of poverty, etc. businessmen should confine their approach to very few genuine problems in their sphere, affecting seriously national interest, where they feel government's rethinking is absolutely necessary and where their contribution could be more effective. Let us, through a collective effort, select a few cases for urgent consideration by

government. For what it is worth, my list would be as under :

- (i) We talk of improving our productivity and yet we penalise units which try to produce upto the "installed capacity" on the grounds that production exceeded its licensed capacity, even if the goods produced were much needed and in short supply. Hence, there seems to be a contradiction between government's intention and implementation.
- (ii) In order to protect employment, we do not permit closure of units, even though the unit is on the verge of insolvency. Unless it is government's intention to take over every sick unit in the country, such negative approach may discourage and endanger prospective entrepreneurship. By all means, government should punish any unit which fraudulently attempts closure though solvent. However, a judicious lay-off and a timely closure can save the unit from extinction. In the long run, such positive approach is in larger interest of protecting employment.
- (iii) Although sickness in industry is taking a mounting toll of employment, our economic policies have failed to take advantage of mergers, which, through a process of take-over by affluent units, can save in good time many "lame duck" units as is the case in developed countries. It is infinitely better for government

at the cost of some tax-revenue to prevent unemployment on a large scale, before a languishing unit folds up. Liberal laws of mergers can prevent government shouldering unmanageable financial burden of taking over sick and un-economic units.

- (iv) In our pursuit of "social justice", we have created a situation where the organised sector which constitutes 9.6% of the total labour force, inclusive of employers of the country claims 33.9% of the national income (according to last published statistics in 1979). This organised sector includes workers in factories, mines, plantations as also non-agricultural establishments, inclusive of managers, supervisors etc. Yet, this sector is the one which is most dissatisfied and perpetually clamours for better emoluments and liberal fringe benefits, creating further distortions in wages. Should not the government review "prices and incomes" policy to prevent social injustice to the rest of the population?
- (v) In an endeavour to encourage small-scale industries by establishing an unorganised sector within almost every organised industry, our government has for valid reasons given them generous fiscal benefits. While such unorganised sector has every right to exist and prosper with the organised sector, one should not thrive at the cost of the other, as in the case of power

looms. In this process, the cotton textiles, the biggest organised industry in the country, has been literally throttled and rendered uneconomic. As an urgent measure, should not the government determine the role of handlooms, powerlooms, and the organised industry to ensure that they all co-exist and prosper collectively? Such approach should be adopted for all unorganised sectors of industry, which endanger the organised industries.

- (vi) No less an eminent and experienced economist of the calibre than Mr. L. K. Jha, in his "Economic Strategy for 1980", has commented about the working of Industries (Development and Regulation) Act. He has said that "it perhaps serves to regulate development but does not encourage it. Whenever a need for a control has been felt, the necessary powers have been taken to impose control but a meaningful discussion of the principles has not preceded nor followed the imposition of the control". Mr. Jha has further indicated in an other part of the document "that our levels of taxation have reached undesirable proportions and in many cases, are self-defeating". It would be difficult to put in a nutshell so effectively what the entire community would like to endorse.
- (vii) Similarly, the MRTP as an enactment may have valid reasons in a socialistic economy. However, the way it has been operated has put

veritable fetters on the initiative, drive and enterprise of large houses which could have stimulated far expeditiously industrial growth of India and our GNP in its stride. This enactment was intended to protect small entrepreneurs being smothered by the rapacious large houses in their endeavours to establish industrial units in this country. If this spirit behind the restraint on large houses is genuine and justified, it is difficult to understand how many of our non-residents who left the shores of India with a modest sum in their pockets became multi-millionaires in no time. India can be proud of this clan of Indians domiciled abroad who have in U.K., U.S.A., Hongkong, British Columbia and in numerous other parts of the world, minted millions against the competition and domination of industry by giant industrialists, far bigger than Birlas, Mafatlals and Tatas.

- (viii) Finally, in order to bring about better understanding and closer collaboration between government and industry, cannot both sides encourage joint sector approach? If there is a political will to do so, it can be easily achieved by identifying suitable projects, in appropriate areas. Such joint sector collaboration could be on the basis of original Air-India formulae. In that arrangement, the Private Sector held 51% of the equity, retaining the management. However, the government holding 49% should

reserve the right of taking over additional 2% to become majority partner, should circumstances warrant, such a course of action. Apart from expediting industrial development through joint contribution, it would minimise any possible animus or rivalry between the two sectors.

For a meaningful dialogue to be worthwhile, we should ensure that we are able to convince our government that business and industry have every right to be heard in Delhi in policy-making processes, like all other interests in the country. Till such dialogue is implemented, the private sector should assure the appropriate ministries that they are able to stand on own legs, unaided, provided they are not loaded with undue burden of taxes and unproductive enactments which hurt more than help. The country belongs to all. In national interest, the country needs the help, talent and contribution of the entire population in a patriotic approach for our country's prosperity.

Fortunately, "mixed economy" is not incompatible with "free enterprise" in its basic concept. It is true that there is a substantial weightage in favour of public sector. To that extent "freedom to choose" and "freedom from interference from government" are naturally restricted in a mixed economy, but not denied. Hence, nothing prevents our government in exercising its free choice whether to set tighter limits on government control or in the alternative rely more heavily on voluntary co-operation from free indivi-

duals. In exercising its choice, let not our government overlook lessons from history of success stories in the sphere of economics.

For example, combination of economic and political freedom produced a veritable golden age in U.K. and U.S.A. in the 19th century. The benefits of such freedom are most conspicuously noticeable in agriculture. Taking the example of U.S.A., it is most interesting to note that on the eve of the Declaration of Independence, fewer than 3 million immigrants of European and African origin, occupied a narrow strip of land on the Eastern Coast, when agriculture was the main economic activity. In those days, it took 19 out of 20 workers to feed the whole of U.S.A. and yet they were able to export food in exchange for foreign goods. Today, it takes fewer than one out of 20 workers to feed 220 millions and yet provide a surplus that makes U.S.A. the largest single exporter of food in the world.

We are also performing a similar miracle. For example, after years of over-independence on PL 480 food imports, we set into motion the green revolution in Punjab. In doing so, we have become self-sufficient in food. This was possible because our hard working farmers were given the freedom of choosing automation in terms of tractors and farm machines and added efforts of government in supply of fertilizers and assured procurement prices for the products. Fortunately, there were no trade union leaders there to interfere in transition from manual labour to auto-

mation as was the unfortunate case in industry, for a period of time.

It is true that our trade unions, for years, overlooked the fact, that while computers did take a toll of unskilled and semi-skilled hands, they gave India a chance of generating a far bigger number of skilled jobs to handle software programmes, with higher scale of salaries. Today, India can be proud that we are able to canvass and handle voluminous software business from all parts of the world. It would be impossible for our Indian banks and insurance companies with thousands of branches to function effectively and expand further, if our trade unions try to put fetters on these institutions by opposing use of computers. It would be a mockery of trade union agitation against unemployment and under-employment since with such negative attitude on their part, it would be impossible for banks to expand without use of computers. That would amount to stifling prospects for additional employment.

Thus, such lessons of history do show how certain flexibility on the part of government in permitting such agricultural revolution and encouraging private initiative could perform miracles. It shows how one day such an approach can put us in a position, where India may have substantial surplus food to export after feeding our population. This could be possible if Punjab farmers' initiative is emulated throughout the country, in the sphere of agriculture.

India should be proud of her record of progress since we became politically independent. Within three and a half decades, we have attained the rank of a major industrialised country in the world. This achievement speaks volumes about both the public and private sectors' great stride in the direction, as well as the political stability of government and its support and encouragement. The contribution of our scientists in almost all branches of science has been acknowledged internationally. With such qualifications can anyone doubt that India has a bright future ahead of us? Can we not, therefore, shed our divisive tendencies and unite as a nation to attain, through collective effort, our destined goal? It can only be possible through better understanding between government and all sections of our population.

*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

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FORUM OF FREE ENTERPRISE

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

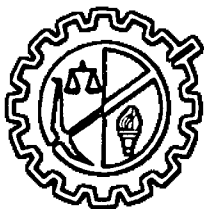
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