

THE FORUM OF FREE ENTERPRISE



**FORUM**  
of Free Enterprise

**"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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Jawaharlal Nehru had already embarked on the large-scale nationalization of industry – trade and transportation were already nationalized and insurance was on the verge of being nationalized. Shroff, as chairman of New India Assurance Company, one of the largest and fastest growing insurance companies in the country fought a hard and losing battle against nationalization. He argued that there were bad eggs in the business, but regulation and disciplinary action were the need of the day and not nationalization. But the government was not even listening.

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\*The text is reproduced from the biography of the late A.D. Shroff, Founder-President of the Forum, entitled 'A.D. Shroff – Titan of Finance Free Enterprise' by Sucheta Dalal published by VIKING (Penguin Books India P. Ltd.) in 2000 at the instance of the A.D. Shroff Memorial Trust. The text is reproduced with kind permission of Penguin Books and the Trust.

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Shroff's criticism of government grew even more trenchant. He believed that Nehru's brand of socialism and comprehensive planning – which stifled individual initiative and enterprise and encompassed all aspects of life – was fast turning India towards becoming a totalitarian state. It was not as though Shroff was against planning. On the contrary, he was one of the eight signatories to the famous Bombay Plan of 1944, which laid out a blueprint for the rapid development of India. He was also part of the National Planning Council headed by Nehru himself. But planning, he believed, should not stifle private enterprise.

He was also agitated about the blatant manner in which the government propaganda machinery was being used to discredit the private sector and romanticize socialism. The income-tax department had launched a massive investigation against leading business houses including the Tatas, Birlas and Sarabhais. It was to look into allegations of war time profiteering and tax evasion. The disclosure of the massive cornering of licences by industrialists and the threats of action against them had the desired effect of silencing industrialists as well as industry associations. But Shroff was unaffected.

In those days, Nehru and his ministerial colleagues liked to publicly allege that private enterprise was incapable of undertaking large-scale and rapid economic development and that it led to the concentration of wealth in the hands of a few people. Jawaharlal Nehru himself had gone so far as to say that 'private enterprise and democracy are incompatible'.

T.T. Krishnamachari, minister for commerce and industry in the 1950s, claiming that the private sector showed neither initiative nor enterprise declared that 'private enterprise had failed me'. Shroff, typically, could not have let such a claim go unchallenged.

TTK and Shroff had an unusual admirer-adversary equation. Shroff viewed with approval the remarkable drive and energy that TTK brought to his job and acknowledged his outstanding success as an industry minister; he 'found it even more incomprehensible that man of such fine understanding of business and industrial problems and one who had witnessed first-hand what was being done in the industrial sphere in those years should have made such charge against private enterprise. To me', he said, quoting Shakespeare 'it has come as the most unkindest cut of all'.

Analysing the historical role of private enterprise, Shroff said in one of his many public speeches that for sixty-odd years before Independence, private sector fought the apathetic and downright antagonistic attitude of the British to the industrial development of India. Later, the British government switched to discriminating protection of its own industry and a pace that was totally unsuited to Indian industrial development. Yet, it was private enterprise which placed India eighth on the list of industrial nations.

When Jamshedji Tata first thought of starting the steel industry, a leading British businessman of Calcutta had ridiculed the idea and he even offered to consume every pound of steel made in India. 'Fortunately for him, he is

not alive today, otherwise he would have suffered not a little from indigestion,' said Shroff caustically.

Jamshetji's great pioneering effort had ensured that TISCO was not only the largest single individual steel-making unit in the British Commonwealth of nations but also the cheapest producer of steel in the world at that time. The development of hydroelectric power was a tremendous venture not only in terms of generating power but also in making Bombay millowners believe that it was possible to do so. Scindia Steamship had made the dream of Indian shipping a reality, thanks to the efforts of Narottam Morarji and Walchand Hirachand, and offered a world-class transport company in the teeth of powerfully entrenched foreign shipping companies. The cotton textile industry had become an important exporter which was competing effectively in the piece-goods' market with Lancashire and Japan.

Shroff's speeches tried hard to counter the negative public opinion about the private sector following the tax investigations, because this was used by the government to build support for its policies of state socialism and nationalism.

As industrialists were scared into subjugation, it became increasingly apparent that G.D. Birla had been dramatically wrong in his assessment of Nehru way back in 1936, when he first espoused socialism at the Lucknow Congress session. When the group of industrialists had issued a public statement in 1936, expressing their disquiet



at the socialistic statements contained in Nehru's speech, the great GD not only distanced himself from the attack but led the effort to quell the opposition of other industrialists. In a letter to Sir Purshottamdas Thakurdas, Birla had expressed the belief that Nehru would not press for his 'ideological flights' to be implemented. How wrong he turned out to be.

One by one, the restrictions on private enterprise increased – nationalization, licensing, quotas and growing mass of red tape began to smother industry and breed enormous corruption – even today, forty years later, the red tape, the corruption and the vested interests continue to stifle the liberalization process.

Transportation and insurance were among the first industries to be nationalized and both hurt the Tatas badly. If J.R.D. Tata was shattered by the nationalization of aviation, leading to a permanent rift in his relationship with Nehru, Shroff was no less shaken up by the nationalization of life insurance in 1956.

Indian business houses found their own ways to deal with nationalization, licensing, and a steady increase in income and corporate taxation. Cornering of licences was used to retain market dominance and taxes were avoided through illicit transfer of wealth to numbered Swiss bank accounts. In later years, private sector industrialists discovered that nationalized banks and financial institutions were another avenue to corner funds to build huge industrial empires providing high priced and substantial products.

But in the more idealistic 1950s, Shroff, true to his nature, chose to launch his own war against the doctrine of State socialism whose regimentation and control, he said, bred red tape, waste and corruption. His first target was those in government who deliberately chose to equate private enterprise of the twentieth century with the laissez-faire capitalism of the nineteenth century – the latter, he stressed, was as dead as the dodo. He sarcastically suggested that socialists of the day who denounced capitalism should find ‘some other innocent pastime than tilting at imaginary windmills’. At the same time he was conscious that private enterprise needed to clean up its act. He prepared a Code of Conduct for industry in the 1950s and said, ‘It is absolutely imperative that thinking people in the private sector should make an organized endeavour to establish the highest standards of integrity and efficiency.’ He was also for stringent punishment of those who did not play by the rules.

Shroff soon realised he needed to create an organizational structure to educate people and to make the voice of the private sector heard. He decided to set up the Forum of Free Enterprise.

### **Starting the Forum of Free Enterprise**

The Forum was a vehicle for like-minded businessmen to counter government propaganda against private enterprise. Shroff believed that in a democratic society, educating public opinion especially the intelligentsia, was the best antidote to the doctrinaire policies of the State.

As things have turned out, the last four decades have seen the intelligentsia being systematically marginalized

in the political process which is dominated by those cashing in on caste and religion-based vote banks.

It is no coincidence that the Forum of Free Enterprise was born immediately after Nehru nationalized the insurance business. Shroff was furious that instead of punishing delinquent insurance companies and tightening the regulation of insurance, the government had opted for nationalization.

On 18 July 1956, the Forum of Free Enterprise's manifesto which was published in several leading newspapers and had outlined its policies, sparked off a heated debate around the country. Within days of its publication, over a thousand letters poured into the Forum office from across the country, offering suggestions, support or assistance. Letters came from villages, talukas, districts; some were scrawled on little postcards. To Shroff, it was a gratifying sign that the idea of the Forum had supporters across the country, cutting across economic barriers. The government disapproved of the Forum and found different ways of making this known. Industry, taking its cue from government, also kept its distance. Nobody had doubts that under Shroff's leadership it was bound to be controversial as well as stringently critical of government.

The government tax investigation against big business had first silenced the big houses and the stalwarts who had played a big role in funding the freedom struggle. The investigation against Kasturbhai Lalbhai, which began in 1948 had rocked Parliament and led to the resignation of the first finance minister R.K. Shanmukham

Chetty, ended with an exoneration of the group. But the effect on industry was paralyzing.

Though many industrialists were frustrated with government policy and agreed with the Forum's philosophy, few were willing in those days, to appear publicly on the Forum platform or be seen as its supporters. At the launch of the Forum, Shroff said that thousands of people had expressed their support for free enterprise but admitted that they were afraid of inviting the wrath of officialdom. Despite their opposition to the Forum, Shroff's vast influence over business and industry ensured that he could pack its Council of Management with some powerful names such as S. Anantharamakrishnan, S.K. Sen, M.A. Sreenivasan, Sardar Mohan Singh, Narayan Dandekar, M.R. Masani, S.N. Haji, Col. Leslie Sawhny, F.S. Mulla, T.M. Desai, K.C. Cooper, Chimanlal B. Parikh, F.P. Mehta, M.A. Master, C.M. Srinivasan and K.G. Khosla.

But the opposition was as serious. 'I remember how a leading industrialist like Lala Shriram had come to Bombay and straightaway advised us not to do it,' says M.R. Pai, secretary of the Forum. After hearing about the Forum's plans and activities, Shriram, who returned to Delhi, had the powerful Federation of Indian Chambers of Commerce and Industry (FICCI) issue a circular to the effect that 'some people' are setting up a Forum of Free Enterprise which ought to be discouraged because it was not good for the country. Ironically, FICCI, which had fought discriminatory policies of the British and wrested several major concessions for Indian business, was totally subjugated by the Indian government after Independence.

A whisper and innuendo campaign had started to claim that the Forum was foreign-inspired and was financed by the United States. 'The Forum, I claim, is genuinely swadeshi in its genesis and operations as any other national organization, not excluding the Congress,' said Shroff, choosing to answer the whispered allegations openly. He called the suggestion that he received American financial assistance, 'as fantastic as expecting to receive remittances from the man on the moon'.

Finally, Nehru decided to be open about his displeasure. Manubhai Shah, then the high-profile union minister of commerce, called Shroff for a meeting and informed him of Pandit Nehru's disapproval. He said that Nehru wanted the Forum to be wound up. Shroff heard him out in silence and then simply raised his palms upwards saying 'Have you seen these? These are clean hands, you cannot do anything to stop me.'

Shroff not only anticipated the opposition but also was prepared for it. Freddie Mehta, at that time with the Economics and Statistics Department of the Tatas, who worked with him on various occasions, says that one of Shroff's biggest strengths was his ability to marshall his forces and build support for his stand before venturing to take on an issue.

This preparation was visible at the Forum too. Shroff took care to ensure that the Forum was seen as apolitical. In his inaugural speech he said, 'We are not a political organisation. Our main, if not the only, objective is of an educative character.' In the nine months before the launch of the Forum, various people had pressed him to start a

political party with the Forum as the nucleus. Shroff categorically announced that he had no such intention. 'However', he said 'we shall continue to be undeterred by official frowns or even threat uttered to individual workers of the Forum...' It is a tribute to Shroff's sagacity that the Forum was kept completely apolitical and could deflect a lot of criticism.

In fact, Shroff even insisted that the Forum should always remain an ad hoc and unregistered body. Even its funds were not raised through a permanent corpus. When the Forum was set up, J.R.D. Tata had offered Shroff one lakh of rupees towards its corpus, but Shroff had turned him down. He asked for a smaller sum of Rs.10,000 instead and said that the Forum would prefer to collect every year small amount from a larger number of people. Even to this day, the Forum raises funds only on a yearly basis and only as much as is required in any given year. He used to say that when the Forum stopped playing a meaningful role in society, it would automatically cease to get support and should then logically cease to exist.

His notion of free enterprise was one with a social purpose. The Forum, he said, stood for every individual in the country having the largest scope to make a contribution within the framework of planned development through his initiative and enterprise. And that it is ready and capable of making a substantial contribution to society provided it is not handicapped and hamstrung by the sort of controls and regulation to which it was subject. 'We claim for ourselves the right and liberty to criticize when we must,' said Shroff.

'What we stand for is that within the framework of planned development every individual in this country should have the largest possible scope for making his or her contribution towards the development of the country by the use of his or her initiative and enterprise. What we do not accept is subjecting the economy to such a measure of regulation and control that it stifles initiative, incentive and enterprise, and if, during the course of our activities, we have found it necessary to criticize government policies and actions, it is because we are convinced that the regulations and controls are defeating the very objective of a rapid economic development of the country. Excessive regulation and control lead to concentration of power in the hands of the bureaucracy and tend to (result in) regimentation of economic life,' said Shroff.

The government watched the Forum's activities very closely. Prime Minister Nehru was even provoked to state that 'there is some truth in free enterprise but there is a vast quantity of error.' Some time later he was forced to say that there was 'an assured and respected place for the private sector in our economy'. This was a big concession from his earlier stand that 'private enterprise profits by the distress of the country' and that 'all businessmen are crooks'.

Conscious that the lobbying for free enterprise would be misused by black sheep indulging in malpractices such as profiteering, black marketing and tax evasion, Shroff placed before private enterprise 'a Code of Conduct to

be followed by all those engaged in free enterprise, whether businessmen, or professionals such as doctors, lawyers, teachers and journalists'. He was always conscious that private business was largely responsible for the bad name it had earned because of its lack of transparency and sharp practices. The Code of Conduct which covered the interest of shareholders, consumers and labour could be called a four-decade-old-precursor to the Corporate Governance Code being written in the late 1990s. Here is what it said:

### **The Code of Conduct**

The code of conduct for free Enterprise has been prepared by the Forum of Free Enterprise and is now placed before industrialists, businessmen and those belonging to different professions and vocations in India in the belief that they will find it worthy of acceptance and of application in their daily activities. The Forum pledges itself to do all it can to create a widespread awareness in the ranks of Free Enterprise of the obligations that are contained in this Code. We feel that Free Enterprise, which has been tested and proved by time and experience of all democratic societies, should maintain its reputation by insisting on high standards of integrity which are dictated by social purpose. Honesty, hard work, courtesy and continuous initiative are the foundations on which the edifice of Free Enterprise rests.

Producers and distributors owe it to the consumers of their products that they shall always be of the highest quality and available at reasonable cost. They shall



maintain fair measure and guard against adulteration. Customers are entitled to courtesy, promptness and good service and every endeavour shall be made to see that they receive them. Employers owe it to labour to recognize that welfare is not conceived in terms of philanthropy, but as a social obligation. Men and women engaged in production shall do so with dignity, honour and a sense of security. Fair wages should be paid for work done.

Working conditions shall be as pleasant as possible. Opportunities should be made available for the worker to gain technical skills and better his economic prospects and social status. Procedures should be instituted for the removal of legitimate grievances so that the employee is satisfied that he gets a fair deal.

The employers should welcome the existence of stable and democratic trade unions. They should recognize that in the sphere of employees-management relations, as in other spheres, checks and balances are essential for the working out of rational and democratic solutions. They should accept the role of labour as one of creative co-operation and recognise the need for providing increasing opportunities for consultation of employees and their progressive association with Management to help in the promotion of increased productivity from which all will benefit.

Management owes it to those who invest in their enterprise that they receive a fair return on their investments, commensurate with the risk they take. At

the same time, reserves must be created for expansion and modernisation of the plant and machinery and in their utilization the Management remains accountable to the investor. Money must also be provided for research. The earning by the shareholder of a fair return or profit by the entrepreneur under competitive conditions and after payment of fair wages must be regarded as a legitimate reward for the risk and the work of promotion and development which the community urgently needs. Certain malpractices have crept into the system of company management. They are to be condemned and should be removed. Hoarding, black-marketing and profiteering are anti-social and evil. Honest business practices can be promoted and encouraged by an honest and efficient administration in a democratic State. Professional men – lawyers, teachers, doctors, auditors, or writers – owe it to those who avail themselves for their services to maintain the highest standards and traditions. They should discharge their duties truly and faithfully, and should always subordinate considerations of personal gain to the larger objective of service.

We all owe it to the community that we accept our obligations as good citizens. We shall bear our share of taxation honestly. We condemn unequivocally any attempt at tax evasion. We shall actively participate in the promotion of social, cultural and civic improvements. Wealth or power shall not be a justification for vainglory or ostentatious display, but an opportunity for rendering service to the community.

## **The Impact of the Forum**

Once the Forum was in place, it became Shroff's main vehicle for taking on the government. For instance, in 1956 immediately after First Five-Year Plan had flopped, the government was obviously looking for an escape route. TTK in his post-Union Budget speeches spoke of a 'capitalist strike, the like of which had not been known before.'

Shroff immediately called a press conference to challenge the statement. 'If the finance minister is looking out for a excuse or a scapegoat for the failure or miscarriage of the Second Five-Year Plan, I want to assure him that he will be searching in vain for that in the field of free enterprise,' he declared. He called the suggestion of a capitalist strike as fantastic as the expectation that the Forum of Free Enterprise would be invited to a champagne dinner by the finance minister. Ridiculing TTK's statement, Shroff scoffed – 'in the extreme it might mean that all industrialists would decide to close down their industries. Or perhaps what the finance minister fears was that free enterprise, under conditions prevailing in the country today, would refuse to undertake the responsibility of promoting and running new industry.' TTK's fears, he said, appeared to have been born of his own conviction that 'if he were a capitalist today, under the climate which to a large extent he himself is responsible for creating, he would be afraid of undertaking a new venture.'

Shroff said that there was a growing hypersensitivity and lack of tolerance on the part of the ruling authorities, so

much so that any view contrary to the official policy was attacked as 'the vested interests that fight in my front, on my side, on my back and on my flanks.' Shroff virtually dared TTK to attempt to silence him by saying, 'If the finance minister chooses to interpret the activities of the Forum of Free Enterprise as an all-sided effort to fight him, then I want to assure him that there will be no relaxation in our effort to put our viewpoint before the public in its right and correct perspective.'

In fact, matters had reached such a ridiculous level that when two issues of capital by foreign companies were successfully subscribed in 1956, the minister alleged that 'the average individual in this country thinks that the foreigner is a safer person to put his money with.' Shroff labeled this a 'cheap fling' by TTK and most unworthy of any patriotic Indian. But he also proved the hollowness of this charge. He argued that even under the British, Indian industries without any encouragement or support had done so well that not only Indians but even the most discerning foreigners had shown remarkable faith in them.

In the 1930s, Shroff had said, a debenture issue of Tata Power Company in London was placed on the London market at an incredible low rate of 2 per cent. The issue was called the 'Tata twos' and was the lowest coupon debenture issue in the whole history of the city of London – nothing could be a higher compliment to Indian enterprise.

In 1956 itself, Shroff pointed out that the World Bank had lent US \$75 million for TISCO's expansion. 'It was

again the largest individual loan given to any industrial enterprise in any part of the world.'

Facts and details trotted out by Shroff at every public meeting made little difference to the Nehru government which had a huge majority in Parliament. Nobody paid attention to the fact that the threat of nationalization crippled private initiative. The bad eggs in the private sector also provided as much fodder for government criticism through their shenanigans. The failure of the First Plan also had the government working furiously to force its implementation 'at any cost'. Shroff felt that the government attitude smacked of imposition and feared that it would only end up killing democracy and creating a totalitarian regime in the country. Democracy, he said, is not sustained by the brilliance or ingenuity of a few but by the good sense of the country in general.

However, all of Shroff's trenchant and public criticism had limited impact. The Congress party still held sway over the public imagination and Pandit Nehru's personal charisma. Nehru's romanticized socialism and his slogans about the 'commanding heights of public sector', convinced the middle class and even held out hope to the illiterate masses.

### **Budget Analysis**

From the beginning, Shroff devoted considerable time and energy to the Forum. He also started some events, which endured and grew into traditions of Mumbai's life. One of these was his practice of making post-budget speeches analysing the Union budget and the finance

bill. In the early days, Shroff himself delivered the speech; his enormous grasp of the economy and markets was used to deliver the budget analysis. The event used to be held at a packed hall at the Greens Hotel next to the Taj Mahal hotel in Mumbai.

M.A. Master recalls that Shroff's was never an opinion that would be found in the morning speeches after the Union Budget presentation. His views were always considered and his criticism was thus doubly appreciated and commanded a wide following. In later years, Shroff used the Forum platform to introduce new speakers and encourage younger people.

One of the Forum discoveries was Nani Palkhivala, who went on to become one of India's biggest legal luminaries and an expert on the Indian Constitution. Shroff first heard the thirty-seven year old Palkhivala speak at a Forum event on 2 December 1957 and was very impressed. He had said to M.R. Pai – 'where did you find this young man? You must encourage him.'

Palkhivala went on to deliver his first post-budget analysis soon after. Palkhivala's style was different from Shroff's but he was a master orator who held his audience to rapt attention. While Shroff's address was aimed at experts and economists, Palkhivala had the knack of reaching out to the general public. Almost immediately, his budget analysis became a big public event. Those were the days when newspapers were the first to get budget reports on slow ticker-tapes; there was no televised speech and certainly no instant analysis by a battery of experts. So

the post-budget speech became a must-attend annual event for the financial community.

Soon the Greens Hotel could not accommodate all those who sought entry. In 1965, the Forum shifted the event to the much larger Cowasji Jehangir Hall; that was the last time that Shroff presided over the event. The event went from strength to strength, and moved in 1966 to the east lawns of the Cricket Club of India (CCI) to accommodate the surging crowds. In the 1980s, Palkhivala's budget speech had arguably become the second most important event after the finance minister's budget speech. The venue was the Brabourne Stadium and it used to be crowded to capacity until Palkhivala decided in 1994 to stop delivering the speech.

The Forum's other big discovery was Russi Taraporevala, a financial expert and analyst who went on to become a very close associate of Shroff. He used to be called the guru of the stock exchange and did an incisive, industry-oriented analysis of the budget for brokers of the Bombay Stock Exchange (BSE), two or three days after the Union budget was announced. After trading closed at 3 p.m., the trading ring was hastily cleared and set up for Taraporevala's annual address. Not only was the trading ring packed to capacity, but even brokers' offices used to be crowded since their sub-brokers, punters and investor clients turned up in large numbers to hear Mr. Taraporevala over the public address system of the exchange. It used to be said that prices on the BSE took a decisive post-budget trend only after Taraporevala had analyzed the prospects of various industries.

Groomed in the Shroff mould, Taraporevala also refused to make instant judgements and never went public until he had studied the budget documents in detail. He delivered his thirty-third and last lecture in 1997, putting an end to the tradition because 'you cannot analyse a budget anymore, if the main provisions are going to be rolled back within a few days.' Since the Taraporevala's speech looked at a trend, the roll-back and changes which are common to recent budgets, make the entire exercise rather futile, he said.

With the Forum's most glamorous event losing a lot of its value after televised budget speeches and round-the clock analysis made its debut, it has continued its efforts to educate young minds.

As a part-time professor at Sydenham College, Shroff encouraged students to think, speak and write about economic issues. He often donated his own money, in order to help the Sydenham College students publish a high quality banking magazine when their funds dried up. Shroff saw students' education as the hope for the future; he used to tell Mr. Pai – 'teach students *how* to think, not *what* to think.' At the Forum, Shroff created a special membership category called Student Associates at a nominal fee of Rs.2. This entitled students to literature published by the Forum. Now, the Forum continues this interest by administering the A.D. Shroff Memorial elocution competition, which is held in over 100 colleges around the country.

*The Forum of Free Enterprise will be completing fifty years of its existence in July 2006. This booklet has been published with a view to bringing to the attention of Forum's members and student associates and others of the circumstances in which the Forum was established by the late A.D. Shroff in 1956.*



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

**-Eugene Black**

# FORUM

of Free Enterprise

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

Membership of the Forum : Annual Membership fee is Rs.100/- (entrance fee Rs.100/-). Associate Membership fee Rs.60/- (entrance fee Rs.40/-). Students (Graduate and Master's degree courses, full-time Management students, students pursuing Chartered Accountancy, Company Secretaries, Cost and Works Accountants and Banking courses) may enrol as Student Associates on payment of Rs.10/- per year. Please write for further particulars to : Forum of Free Enterprise, "Peninsula House", 2nd Floor, 235, Dr. D.N. Road, Mumbai 400 001. E-mail: [ffe@vsnl.net](mailto:ffe@vsnl.net)

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