

Free Enterprise in India  
— A Call For Leadership

A. D. Shroff



FORUM OF FREE ENTERPRISE

SOHRAB HOUSE, 235, D. NAOROJI ROAD, BOMBAY-1

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

EUGENE BLACK  
*President, World Bank*

# Free Enterprise in India

## - A Call For Leadership

A. D. Shroff

**K**NOWLEDGE shall make man free, it is said. This is illustrated by the impact of the Forum of Enterprise on national thinking since its formation a little over five years ago. An atmosphere darkened by slogans of socialism is getting brighter today, thanks to the dissemination of knowledge on economics of free enterprise which is nothing but application of commonsense to problems of production, distribution and exchange. It is a matter of consolation that the intellectually honest among socialist friends have been realistic enough to grasp the significance of economic commonsense. For instance, Mr. Jayaprakash Narayan, a founder of socialist movement in India, is today thoroughly disillusioned about nationalisation, one of the main planks of doctrinaire socialism. He is reported as having declared at a public meeting at Srirampur on May 2, 1961, that nationalisation of big industries would not solve India's economic problems nor would it achieve the general well-being of society. Such nationalisation would only create an "economic bureaucracy" in addition to the other administrative personnel that would get high salaries without looking after the interests of the common people, he added.

The Indian economy is dominated today by the Five-Year Plans. Therefore, the Third Plan naturally forms the main theme of economic debate and discussions. Although the Plan datewise was to have commenced on April 1, 1961,

---

*Text of the presidential address at the fifth annual general body meeting of the Forum of Free Enterprise in Bombay on Oct. 25, 1961.*

the final draft was published on August 7, 1961, and Parliamentary approval was gained on August 24, 1961. This time-lag in itself is a sad commentary on the type of planning adopted at present. Committed as we are to an industrialised society, it is worth our while to know the sagacious observation of Wilhelm Roepke, eminent economist who was in no small measure responsible for the Economic Miracle in West Germany, on the time element in such a society. Commenting on the enthusiasm of underdeveloped countries to transplant economic forms of industrialised West without examining all its bases, he warned:

“Modern economic activities could thrive only when whoever says ‘tomorrow’ means tomorrow and not some undefined time in the future.”

The Third plan imitates the Second in the strategy of planning. It is a carbon copy of the Soviet Communist model of planning. On previous occasions, I have warned the country that the Soviet Communist model of planning with its emphasis on heavy industries, collectivisation of agriculture, centralisation of all ownership and power in the Government, neglect of consumer goods as well as a gross disrespect for the basic human liberties is eminently unsuited to India. As we cherish the democratic way of life, we cannot afford to imitate totalitarian planning while trying to maintain a democratic structure. Moreover, it is becoming apparent with the passage of time that the Soviet model of planning is not leading to the promised El Dorado. According to Mr. W. W. Rostow, whose theory of economic development is in vogue now, “revolutionary changes in agricultural productivity are an essential condition for successful take-off; for modernisation of a society increases radically its bill for agricultural products.” Agriculture has been described as a dead rat in the Soviet economy. The imbalance between the agricultural and industrial sector continues in an

aggravated form. Recently, it has also been observed that the Soviet economy has become one of "Conspicuous Production". If the phrase "standard of living" has to have any meaning, then there should be meaningful production of goods and services as required and desired by the people, and not production according to the concept of the State planners without any relevance to the needs of the people. Such *meaningful production* of goods and services required by the people, as historical experience has shown, can never be had in a collectivist economy.

As ably stated by Arthur Larson in his book, *What We are For*,

"An economy directed by the state will ultimately always serve the ends of the state. Only an economy directed by consumers will ultimately serve the needs of the consumers. . . . Yet totalitarian Communism not only defaults on the job of creating a prosperous modern consumer economy, but for this dismal performance still exacts the price of personal freedom."

It is also noteworthy that to the extent that there is a departure from statism and there is application of free enterprise principles, there is economic progress even in such communist economies. It is significant that in Communist China, the Big Leap Forward having ended in disaster, there is talk today of "small freedoms". The Peking journal, *Ta Kung Pao*, was recently reported as saying that "it is an important principle in socialist economic life to permit the existence of small freedom within the big collective." Mr. Nikita Khrushchev, the Soviet Premier, addressing recently the Twentieth Congress of the Communist Party of the Soviet Union, is reported to have warned against reckless haste in leaping into communist practices in distribution and wage policies. He emphasised that wages would have to remain the principal stimulus to work for a long time and the awards of labour would be distributed according to the work done. In Yugoslavia,

another country where communist or socialist planning obtains, there is a shift away from such planning. The London *Times* correspondent reported in April 1961 that:

“Years of emphasis and concentration on economic programmes, a steady and often remarkable rate of growth in industrial and agricultural production, the creation of incentives for individual initiative and competition for socialized factories have turned what was once scarcity and later utility into relative prosperity in Yugoslavia. The seemingly contradictory system of a free market economy grafted into socialized industry and commerce is beginning to make its impact. Profitability, productivity, and competition are no longer ideas on paper but are beginning to affect and change individuals as much as they are affecting the enterprise they work in. It is this, the recognition of economic incentive and the free formation of prices through competition and market conditions which distinguishes Yugoslav Communism sharply from that of the Soviet bloc.”

In Poland, according to Louis Fisher, the noted authority on Communism who was on a visit there recently, “There are many private stores and some private manufacturers of consumers goods. Practically all farming is in private hands, and peasants may buy and sell land.” Thus even the communist model of planning is undergoing radical change in favour of principles of free enterprise.

When our country demands some sort of planning for rapid economic development, what would be the alternative if the Soviet model is unsuited to India? Evidently, we have to expand our horizons and take note of development in the field of planning elsewhere. One such example is that of planning in France which has led to a phenomenal growth of the French economy and has considerably influenced even leaders in Great Britain into proposing the adoption of a similar pattern.

The aim of French planning is “to select the maximum possible rate of growth which does not endanger the equi-

librium of the economy, i.e., which is compatible with full employment, but not over-full employment, that allows investment equal to savings, and is compatible with a balance of public finance and of foreign payments." The economy is divided into various sectors. About 3,000 representatives of industry and other interests, organised into 25 commissions, are consulted regarding the targets and their fulfilment. Twenty Commissions deal with different sectors like agriculture, energy, manufacturing industry, housing and education. Five Commissions deal with problems common to all sectors. For instance, the Labour Commission deals with employment, the Finance Commission with investment.

The role of the Government in the execution of the Plan is interesting. It does not use *coercion* but *incentives* like subsidies for research purposes and help to companies to start new lines of production.

The object of French planning is "to improve the living conditions of the French people. This expression does not only refer to increasing the people's purchasing power, necessary though this may be, particularly for the less favoured section of the population. This only represents one aspect of social progress. The improvement of living conditions also implies qualitative improvements. It requires a re-assessment of those aspects of industrial civilisation which are the counterparts of its benefits; long travel between home and work, traffic jams, noises, smog, and the lack of social facilities and of green spaces."

Planners in our country have been obsessed with the notion that all expenditure is investment, and that for a certain amount of investment in capital goods, there would automatically be an increase in output. That theory of capital-output ratio has been discredited now by experience of some of the Western European countries. The emphasis today is on the human factor in economic development. Prof. Colin Clark in his impressive monograph entitled *Growthmanship* states thus:

“The Truth of the matter is that while investment of capital is undoubtedly necessary\* for economic growth, it is certainly not the controlling or predominant factor. Economists are not yet in a position to analyse this matter fully; but we can say that the principal factors in economic growth are not physical—natural resources and invested capital—but human. In the years immediately following a war or similar catastrophe, economic growth can be very rapid. But, except for times like these, the human factors making for economic growth seem to be able to develop only at a comparatively slow and steady pace. It is not denied that good government, and the character and efforts of the people, can do something to improve this pace. But any effort to force the pace violently is likely to lead to waste of capital and other resources and may end up, in fact, by slowing it down.”

In the context of Indian planners' overemphasis on expanding the state sector to promote economic development, the following words of Prof. Clark have greater relevance to India than other countries:

“Much of the mistaken emphasis on investment betrays an urge on the part of those who would like to see more and more power in the hands of the state to enlarge what is called the public sector of the economy and increase the authority of government over the private sector. And, in this way, increasing public investment offers scope for the bureaucrat and the politician to enhance and aggrandise their authority by economic showmanship and conspicuous investment and production.

“Then again, public expenditure does not become productive merely by being described as investment. It can be misdirected and wasted. There is not only the direct waste of projects designed on insufficient information, or mismanaged by bureaucratic over-centralisation, or inspired by political calculation and manoeuvre.



There is also the indirect waste following from taxation, rising prices, government controls, and other measures intended to stimulate investment, all of which damage the rest of the economy by distorting production, impairing incentives to work or save, and erecting a costly apparatus of officialdom.

“The extreme pre-occupation with capital investment has led to the neglect of the other factors in growth and economic development: improvement in education, the development of the legal and institutional framework required for a market economy—a dependable currency, a banking and credit system, general understanding and observance of laws on property, contract, company organisation, restraint of trade, etc., heavy investment in transport and other forms of communications.”

Experience in our country of the operation of state enterprises confirms the worst fears expressed by Prof. Clark. The laurels for bungling go to the State Trading Corporation. Profiteering indulged in by S.T.C. in the distribution of cement and some of its other activities have been adversely commented upon by the Estimates Committee of Parliament in its 86th report. Evidently, even Parliamentary criticism has had no effect on this bureaucratic organisation. That bureaucratic methods are unsuitable for business deals was amply demonstrated in the case of a recent sugar deal with Pakistan wherein the Corporation had to suffer a loss of Rs. 1.1 lakh merely because it did not despatch a telegram in time and the deal was cancelled by the other party. A newspaper report added:

“A number of such failures have occurred in the Corporation in the recent past. The reason, according to a knowledgeable source, is that the Corporation is full of employees from the various ministries whose knowledge of business methods is extremely rudimentary. Although the Corporation has a foreign business management consultant on its payroll, it has paid scant attention to

his recommendations in the recruitment of senior staff. 'The hiring of superannuated persons from the Ministries continues.'

Now the Rupee Payment arrangements entered into by S.T.C. with communist countries have given rise to a new scandal. Mr. Murarji Vaidya, President of the Indian Council of Foreign Trade, has pointed out that "the commodities which have been exported from here (by S.T.C. under Rupee Payment arrangements) have found their way into our normal foreign markets at prices lower than those which we would have earned by direct exports to those countries and which, therefore, have resulted in a shrinkage of our exports to the Western countries both in terms of volume and value. These facts have often been brought to the notice of those who are in charge of planning and regulation of our foreign trade. But so far, the facts of the situation have not only been ignored, but their very existence has been denied. It is, therefore, not surprising that our foreign exchange position is deteriorating instead of improving." It is also necessary to investigate the charge that the rupees accumulated in India by foreign governments under the rupee payment arrangements are being used to finance political activities which aim at the subversion of our Constitution. Apart from the damage that S.T.C. has done to our foreign trade and to established traders by throwing them out of business, if the above charge be true then it will have the unenviable distinction of having contributed substantially to the undermining of our democratic constitution. It is high time that the activities of S.T.C. are restrained and a thorough investigation into its working is instituted instead of proposing further expansion of its activities.

Other state enterprises do not present a happy picture either. What has long been suspected about their inefficiency and the wastage of scarce resources was confirmed by the Finance Minister while presenting the budget for the year 1961-62. It was disclosed that the return on total

investment in state enterprises was barely half per cent. The Government's Annual Report of the administration of the Companies Act for 1959-60, dated February 20, 1961, has not at all been flattering to the state enterprises. It noted "the absence of an efficient internal accounting system and organisation and lack of an internal costing system and organisation which has resulted in inadequate budgetary planning, ineffective control of budgets and insufficient use of essential cost data in the formulation of the company's policies."

The Report also disclosed that many Government companies had failed to observe the stipulated time schedules for closing their annual accounts, preparing their balance sheets and getting their accounts audited. Inefficiency and wastage of scarce resources are only two aspects of state enterprises. A more sinister implication is the lowering of business morality. The popular notion that governments are above unethical practices has been disproved. Profiteering at the cost of the consumer and unethical practices are not uncommon in state enterprises. Only a few out of numerous instances to substantiate this charge are cited here. Profiteering by S.T.C. in cement has already been referred to. The unilateral revision of Telephone rates, which is an euphemism for increase, is another instance. The sale of 2-anna stamps for 13 nP instead of the legal rate of exchange of 12 nP during the time of decimal change-over is another instance. Railways have not been left behind in this scramble for the extra naye paise from the common man. The price of such a simple but essential item like platform ticket was raised from 1 anna to 10 nP. The recent raise in air fares by the Indian Airlines Corporation is yet another example of how monopolistic government undertakings could hold the consumers at ransom.

The public is treated to platform oratory and press releases which list the "achievements" of some of the state enterprises. It is seldom that the public gets a real picture

of the "achievements". The following press comment by a leading columnist, "Beachcomber", in *Thought* magazine of New Delhi, is an eye-opener:

"Who says we are not progressing? Even watches—both ladies' and gents'—have now begun to be manufactured in our country by H.M.T., the very forward looking Hindustan Machine Tools in the public sector.

"Believe it or not, the first one thousand pieces of the watches have even been distributed to the lucky ones—M.P.s mostly, and a couple or two journalists, editors especially. I say 'distributed' advisedly, though in some cases, H.M.T., or the Industries Ministry, has, through oversight (or discreetly?), sent the gifts without the accompanying demand note for a cheque to cover their prices. It would be interesting to know how many of those who have received the gifts actually respond to the request for payment. Also how many among those who don't pay, return the gifts with thanks.

"However, this is only incidental. What worries me more is the reality behind the 'achievement', I haven't been in luck yet to come across the products—the ladies' variety has a catching name, 'Sujata'. But from what I am told by those who have seen the watches, they are really Japanese rather than Indian. Only the dials are pucca Indian. Which means that the products are Indian assembled rather than Indian made, as claimed. What a fall from the norms of truth the Father of the Nation prized above everything else!

"While at it, I might as well mention a crack now doing its rounds wherever the 'achievement' is being talked about in the Capital. The crack runs: 'Wait a year or two. We'll be told then, H.M.T. is manufacturing 10 per cent of the components.' That would mean the strap in addition to the dial.

"The crack is perhaps unkind. But it's the record to date that's to blame for it. We seem to be getting into the habit of crowing before it's morn."

While the record of the state sector is disconcerting, and calls for a thorough probe, it is equally perturbing to note that on the other hand there is a sustained attack on the fundamental requirements of private enterprise and a democratic society, such as the right to private property and the freedom of the Press. Once again, examples could be quoted but I shall restrict myself only to a few. In recent days, there have been vituperative attacks on Press in the country just because it is owned by private enterprise. It has been described as a "jute Press" by one professional politician. Another has described it as being controlled by the Indian Society of Advertisers. Dr. Sachin Sen, former President of the All-India Newspapers Editors' Conference, has rightly observed that, "A free Press is linked with free enterprise. Those who frown on free enterprise and free society are the grave-diggers of the free Press." Is it any wonder then that the advocates of socialism should attack our free Press? So far as property rights are concerned, a steady erosion has been going on ever since the amendment to article 31 of the Indian Constitution. How under ideological compulsion not only are facts of economic realities being ignored but the democratic rights are being undermined was amply demonstrated by the Maharashtra Land Ceiling Act in its application to sugar factory farms in the Deccan. Pioneering entrepreneurs established the sugar factories, and the farms which were built around them (fully owned or some part being leased) have provided sugarcane with four times the national average in sugar yield. Research and hard work led to this result. But under the doctrinaire policy of land ceilings, ignoring the earlier stipulation of the Planning Commission, the State Government decided to take over these sugar factory farms for being converted into joint co-operative farms or state farms. A reasoned case by the Deccan Sugar Factories Association against such takeover made no impact on the Government. On the other hand, the stating of the case in newspaper advertisements to educate public opinion was resented by

the White Paper issued by the Government. When irrefutable arguments against the farm takeover were advanced, finally the feeble plea of mopping up "adventitious profits" was put up. It is indeed a strange way of encouraging individual initiative and enterprise, so badly needed for our economic development, if the penalty of success is virtual confiscation of property and wealth created by vision and hard work.

One cannot but wonder that both in the interest of economic development and the preservation of our democratic values, what is required is not ceiling over enterprise, but ceiling over arbitrary political and bureaucratic power. One comes across scores of instances of such arbitrary exercise of power to the detriment of public interest and economic development. For instance, the Auditor-General of India revealed that construction of a hostel for the Veterinary College at Jabalpur was halted by the Commissioner after the ground work had been constructed because the hostel would overlook his bungalow. Fresh tenders cost the Madhya Pradesh Government Rs. 40,000. But on the imposition of a ceiling on such arbitrary political and bureaucratic power, an important item in the agenda of public life, there is conspicuous silence!

The reference to political and bureaucratic power in the context of doctrinaire economic policy of socialism brings us to the most obnoxious feature of socialism. *Under socialism, politics has become an industry of major proportions.* A new class of professional politicians has emerged. This class depends for its living on the power, patronage, privileges and perquisites which are dispensable under the new economic order dominated by state enterprises, and rigorous control of private enterprise. While those in private enterprise are subject to governmental regulations, consumer preferences, the pressure of public opinion and in general the discipline of the market, there are no restrictions whatsoever on professional politicians who have converted politics into an unregulated industry.

The motive power of this new industry is envy which is not difficult to provoke in any society and least of all in an underdeveloped economy.

The form in which the professional politicians lay claim to an unmerited share of the national income without themselves producing any goods or services of value to the community is that of perquisites. A few examples will show how in the name of destroying a so-called acquisitive society of private enterprise, under socialism a perquisitive society is being built up and standards of public conduct are lowered all round by professional politicians. The Comptroller and Auditor General's report on salaries drawn by Union Ministers was an eye-opener. The Union Ministers are being paid ostensibly Rs. 2,250 but when the cost of perquisites like free electricity is included, the total comes to Rs. 6,000! Appointment of politicians to chairmanship and directorship of state organisations is another instance of how the costs of maintaining professional politicians is passed on to the public. More dangerous than the element of patronage is the lowering of the standards of public conduct. Only a few instances as reported in the Press are cited here. A Member of Parliament was reported as having met with dacoits of the Chambal Valley and accepted Rs. 10,000 but no action has so far been taken against the person. From Mysore comes the news of a scandal in the legislators' hostel. From Uttar Pradesh comes the news of an M.L.A. being arrested on kidnapping charges. From Kashmir comes the news of suspension of four M.L.A.s from the Assembly for the rest of the session for "gross disorderly conduct"! From Bhopal comes the news of first fight among Municipal Councillors. From West Bengal comes the news of hurling of shoes in the State Assembly by Members. From Uttar Pradesh comes a more disconcerting item. Mr. Charan Singh, Home Minister, speaking in the Assembly on April 5, 1961, stated that criminal elements had made their entry into political parties

and, therefore, the problem of enforcing law and order was becoming difficult for the police.

This state of affairs has a disastrous effect on public morale as also the progress of industrialisation and economic development. It can truly be said that socialism, whose economic policies have given rise to such conditions, is the embodiment of the worst features of *laissez faire* capitalism as practised by politicians in the Twentieth century.

The doctrinaire economic policy which is pursued with so much mischief to the national economy and public morals needs to be revised. Private enterprise in the country can no longer look with complacency on this state of affairs. It has a big task before it of educating public opinion and arousing the potentialities of the people for self-help without the unnecessary intermediary or commission agency of professional politicians.

For promoting rapid economic development, private enterprise should educate public opinion in favour of realistic planning as against the current socialist planning. Realistic planning would emphasise that the state create the preconditions and infrastructure so lucidly enumerated by Prof. Colin Clark in a passage cited earlier.

That much needs to be done on this front is all too evident. For instance, in the provision of such essential requirements of industrial and commercial activity like an efficient telegraphic and telephonic service, the government is failing miserably in its duty. It was revealed by the Bombay Press in August 1961 that the Central Telegraph Office, in the hub of commercial centre of the city, had no telegraph forms for months on end! Complaints from smaller places regarding inadequacy of postal services are legion. As regards telephones, while the Third Plan makes provision for 250,000 new lines, the existing and new demand would put up the requirements at 750,000! The help which people of enterprise can expect from the authorities in times of need can be gauged from the following reply receiv-



ed by the Bahadurgarh Manufacturers' Association when 60 factories of its members were under 6 feet flood water. In reply to an appeal for help, wrote the worthy Joint Director of Industries of Punjab: "I will pray to Almighty God to help you."

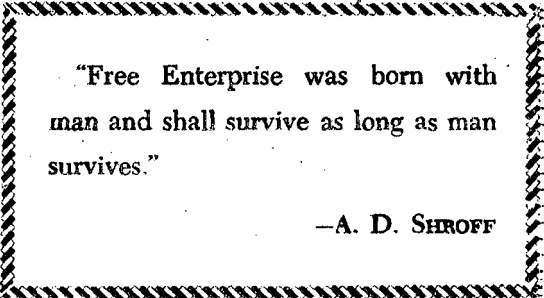
Private enterprise should not merely be content to bring about realistic planning by educating public opinion. It must also help the country to develop in many other ways. It must assume leadership in several spheres of life, thus taking them out of the mischief of politics, which is intruding into all spheres. Private enterprise through the various chambers of commerce and other organisations should resort to social service and particularly take a keen interest in education and civic life. Education and civic amenities have so far been left to professional politicians. The result has been a rapid deterioration in educational standards and dearth of civic amenities in every city of the country. Especially, the experimentations in the educational field by overnight authorities in the subject are promoting a set of students which would be unable to fit itself in the rapidly changing economic context. The sorry state of affairs in education can be inferred from the fact that the Union Government has published in 1961 a report on "Education in India 1956-57". This report includes the latest report from the Director of Public Instruction in Orissa for the year 1948-49! Private enterprise will have to give a new direction to education so that the knowledge of generations can be transmitted to forthcoming generations, as also attitudes and skills could be imparted to them to fit them in the changed economic context.

It is with pride that one can recognise the wind of change in this direction. The Indian Chamber of Commerce in Calcutta has undertaken a project to help the displaced persons at Dandakaranya and is promoting a scheme for Youth Clubs in Calcutta. The Indian Merchants' Chamber in Bombay has established an economic research unit. The Andhra Chamber of Commerce in Madras has started a

private Employment Exchange. A number of individual firms are doing excellent work in the field of social service. For instance, a major cement producer in the country has undertaken rural uplift work in areas around its factories. A major industrial group in the country earned kudos for its flood relief work at Poona. A leading firm of Poona has set up a Foundation to give technical and legal assistance to new entrepreneurs. Some of the daily newspapers of Bombay did remarkable work in mobilising public help for the flood-stricken areas.

The signs are thus hopeful, and we can be sure that private enterprise is ready to meet the challenge which faces it. It is the challenge of developing the country rapidly and on a large scale to give the vast masses of the people a decent standard of living; to create growth potential and an atmosphere of equal opportunities for all; and to give them a satisfying life of creative fulfilment both as producers and consumers and above all as citizens of a democracy.

The words of wisdom spoken by two of India's greatest sons need to be pondered upon in this context. Acharya Vinoba Bhave had said as early as January 1959 that "where a great deal of power is concentrated in the name of welfare of the people, and an army is maintained for its protection, democracy digs its own grave by its own hands. . . . . Whether in India or in any other country, if the people are taught to depend on government for everything, then whatever the nature of the Government, the situation is potentially dangerous." Mahatma Gandhi had warned that it would be a negation of democracy if the Government did everything for the people and people did nothing, or if the Government prevented them from doing anything they wanted to do.



“Free Enterprise was born with  
man and shall survive as long as man  
survives.”

—A. D. SHROFF

**HAVE YOU JOINED THE  
FORUM?**

Annual membership fee is Rs. 10/- only.

*Bona Fide* students can get our literature for a year by becoming student associates on payment of Rs. 2/- only.