# INDIA NEEDS A PRACTICAL ECONOMIC POLICY

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

—Eugene Black

# INDIA NEEDS A PRACTICAL ECONOMIC POLICY*

*By*

**DR. A. N. AGARWALA**

My calculations indicate that food shortage has come to stay in this country; and is of such serious dimensions that no import programme can keep us wholly out of the difficulty. There is a large production shortage, and it is growing larger. A substantial increase in agricultural output has become absolutely imperative: improvement of distribution channels and procurement procedures alone would not do. We have to change the sorry experience of the past that agricultural inputs do not add to agricultural output significantly. The production shortage of foodgrains during 1963-64 was 14 million tons if we judge the country's needs from the point of view of a satisfactory nutritional standard, 9 million tons from the standpoint of the foodgrains production target fixed in the Third Plan, and 8 million tons on the basis of the actual *per capita* consumption of foodgrains in recent years. The market shortage is bigger than production shortage. The stocks held out at the producer end are at least 2 million tons, and if we assume the abnormal stock-holding by trade of an equal amount (because no accurate estimate is available), the market shortage was between 12 million tons and 18 million tons in 1963-64. It should come to 14-20 million tons in 1964-65. We cannot reasonably expect to import more than 6 million tons in a year because of constraints of the world availability of food surplus, our own buying capacity abroad, our limited port and unloading capacity, and the severe limits of our storage facilities and distribution efficiency.

The price situation is no less grim. I have not quite understood why one should get so touchy when this is pointed

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out. Even my simple statement that the internal value of the rupee has declined to 17 paise during the last quarter of a century touched off a controversy in Parliament. I am, however, glad to have the support of a former Governor of the Reserve Bank of India, Mr. H. V. R. Iengar, and to note that the press of the country (of which the *Financial Express*, the *Statesman*, the *Hindustan Times* and the *Northern India Patrika* may be mentioned) agrees with my broad approach. Prices in India have been rising at the rate of approximately 7% per annum at the linear rate since the commencement of the Second Five-Year Plan. I believe that in an underdeveloped country like ours, a steady inflationary pressure of 4% per annum is all that the economy can bear, after taking into account the rate of development that is envisaged: and any situation which presses upon prices beyond this limit appears to be monetary recklessness. With reference to advanced countries, there is an opinion that annual increase of prices to the outer limit of 5% may be all right, and it would be inflationary beyond this point. W. Arthur Lewis† suggests a limit of 3% or 4% per annum and thinks that in that case a country can have all the advantages in inflation for capital formation without much danger that this will give rise to a speculative boom and flight from money, especially if the movement is punctuated every three or four years by a little deflation of prices. The evidence of excessive inflationary tendency is found in India in the unbalanced family budgets of the people. The middle class family living survey of 1958-59 reveals that a majority of middle class families earn between Rs. 100 and Rs. 150 per month, and their expenditure exceeds their income, by Rs. 50 per month in cities like Vijayawada, Mangalore, Indore, Jabalpur, Jaipur, Ajmer, and Surat. Even businessmen, who benefit from slowly rising prices, are getting upset at the rate at which prices are soaring up. Rise in prices pushes up wages and other costs, which in turn push up prices; and we have all the characteristics of a runway inflation in this vicious circle.

Conditions have come to a pass that this state of affairs must be set right without further delay, and the Fourth Plan must have an appropriate and effective price policy as its central

†*W. Arthur Lewis. Theory of Economic Growth, London: George Allen & Unwin, 1957, pp. 405-406.*

core. I had estimated some time back the considerable capacity of the Indian economy to yield resources for national defence and had suggested the policy norm that defence mobilisation should not slacken the set rate of development. My submission was that the Defence Budget should be separated from the usual Revenue and Capital Budgets. The issue was confused by stating that development is defence. The upsurge of popular enthusiasm for defence was not used constructively for national good and was allowed to waste away; and now we face a situation where defence has eaten into our development efforts. I feel that this suggestion needs to be implemented; the Government expenditure as a whole has to be scrupulously cut down by approximately 10% through a major economy drive; and the effectiveness of incurred expenditure has to be increased. There is need of keeping a close watch on the anticipated cost of a project and its actual cost; on its anticipated yield and its actual return. The practice of using capital-output ratios merely for estimating investible resources and then forgetting all about them in post-investment period is ridiculous as well as tragic. There is the need for installing a system of evaluation and feedback so that we benefit from experience and do not repeat mistakes. A vigorous increase in national output must be insisted upon as a measure of achievement; and efforts to explain away failures discouraged. The wisdom of having a manageable Fourth Plan seems to me to be beyond question; and it should be efficiency-oriented and consumption-oriented rather than size-oriented or ideology-oriented. Our "implementation inputs" are seriously limited so that resources are wasted away and often result in inflation-induced hardships. I also feel that a consumption sub-plan is no longer postponeable. Economic planning is for the welfare of the people, and while temporary austerity for the sake of future prosperity is understandable, we cannot subject the people to indefinite sacrifices which erode even their existing living standards. The strategy of diverting 80% of incremental national income to additional consumption and 20% to investment is quite sound; and, if necessary, we may even slow down the rate of increase in investment. But what is necessary is that we have a plan for increasing the production of adequate quantities of consumer goods and for ensuring their prompt and equitable availability to masses.

All this seems to coincide with the New Economic Policy enunciated by the Prime Minister, Mr. Lal Bahadur Shastri, to whom I would like to pay my modicum of tribute for his pragmatic and constructive leadership in the matter of plan formulation and management. In his characteristically modest and quiet way, he has brought to the fore a whole set of policy norms like the welfare of the common man, the manageability of a plan, the urgency of increasing food output, the preference for quick-yielding projects, and the improvement of executive and implementation machinery. He strikes a note of realism when he mentions in respect of the Fourth Plan that it does not matter if our goal is not high : it should be our endeavour to attain the goal and accomplish more than what we initially aim at. This approach offers us a hope of redeeming the economy from the existing mess, provided the Prime Minister's pragmatism and realism comes to permeate the goal-setting, plan-making and executive levels of the administrative apparatus.

This depressing state of affairs looks even more desolate when we see that social organisations elsewhere are reaching new frontiers and attaining new heights. We are living in truly revolutionary times in which society is becoming growingly unorthodox and non-conformist, and increasingly dynamic and flexible. Its effacing ideological commitment and its emerging technological personality are the manifestations of the irresistible human urge for rapid economic prosperity and better living. As a consequence, many of the old lines of distinction in the world of thought and action have already got blurred and are losing their meaning.

In fact, even broader social and economic ideologies are no longer demarcated with the same sharpness as they were before the Second World War ; and Capitalism and Communism seem to be converging to new points of agreement in the wider setting of peaceful co-existence. It is not merely the fear of the havoc that nuclear warfare can spell which is the cause of this new international honey-mooning, though it is there, but the causes go much deeper. In particular, the world-wide use of technology for redeeming humanity from want is bringing about a new and unhidden unity in organisation structures, future visions, business behaviour, political action and human thinking.

The future of Capitalism prior to the Second World War appeared to be dark and gloomy. Even Schumpeter, who believed that Capitalism is geared to incessant economic change and has inherent vigour, predicted that the political climate would be unfavourable to its revival. It was hoped that dependent nations, once freed from the yoke of Imperialism, would have a burst of economic prosperity and would soon catch up with advanced countries. It was also thought that the future really lay with Socialism: socialist countries would assume leadership in the race of economic growthmanship in the years to come and would achieve spectacular prosperity.

These apprehensions and hopes have not all come true in the postwar period. On the contrary, advanced capitalistic countries have made tremendous surge forward, and their record for increasing national income during the last two decades is much better than that during the preceding half century. By all tokens, capitalistic economies are booming. The much-feared postwar recession did not come or was successfully averted; the index of industrial production slightly declined only in one year (1958) since 1948. The five leading capitalistic countries—U.S.A., the U.K., France, West Germany and Japan—have been having an unprecedented run of prosperity, the last two despite the disasters wrought by the war. The *Fortune* calls it "the great rediscovery" of the postwar period that "Capitalism as a whole is *not* a self-exhausting process; the era of radical change we now experience is *not* headed toward a new 'point of rest'."

It may, however, be noticed that Capitalism itself has changed its character. It has found within itself new sources of survival, has adoped certain less extreme socialistic measures and has embraced important welfare functions. It has thus become a reasonably progressive force. When Kennedy became the President of the United States of America, Washington, D.C., soon became the centre of progressive intellectuals who greatly influenced American policies in domestic as well as foreign affairs. It was reported in early 1961 that an American traveller asked : "Which is the shortest way to Washington?"; and he was given the answer: "Go to Harvard, and turn left!" I was talking to J. K. Galbraith in his chambers in the Harvard

University about a month before his departure to take up his new duties as U.S. Ambassador to India; and I still remember his following remark with reference to emerging U.S. policies in Asia and Africa: "The communists do not have a monopoly of revolutions. Why can't we start a couple of revolutions ourselves?" Capitalism of 1965 is surely very much different from the Capitalism of inter-war period: it has taken in a new vigour and enduring qualities by recapturing some progressive forces and moving urges of the modern man. There is a greater emphasis on welfare functions and a whole new emphasis on rapid economic growth not only of national economies but of poor economies of the world in general. This change is indicated by the use of the term "Neo-Capitalism" which is now coming into fashion. Neo-Capitalism is a mixture of private enterprise, social welfare, selective government intervention and concern for human poverty; in other words, it combines the proven advantages of Capitalism with elements of liberal socialism. It has converts in all ranks; they include socially responsible capitalists and pragmatic socialists.

Communistic countries have also undergone changes which can only be called vital, if not fundamental. Their major overtone today is also rapid economic growth; and they are also seriously concerned with the discovery and application of techniques which would relieve poverty. They have noticed that free enterprise and market economy can function in a manner which is identified with social usefulness, and can usher in unprecedented prosperity. Socialists have, therefore, come to accept some basic tenets of Capitalism; and they are less prone to attack private enterprise or ask for its total abolition. Prosperity—a decent home, a rich diet, and good living—this appeals to workers more than the psychic satisfaction of nationalisation. Dogmatic adherence to rigid and inflexible ideologies is becoming less marked. Because of the emphasis placed on technologies of rapid growth, the emerging organisation structures, styles and behaviour of socialist countries are developing similarities with those in capitalistic countries. Even in the human relations area, the approach in the countries of the two blocs is noticeably similar in methods of human motivations if not in its purpose. The theories and ideals on the human side of enterprise of thinkers like Douglas McGregor of the

M.I.T. often come close to what I saw in practice in mainland China and possibly corresponds with situations in other communistic countries. The team of American marketing men which visited the U.S.S.R. in 1960 and presented its report to the American Marketing Conference in St. Louis in December of that year, stated how very greatly they were impressed by similarity of developments in marketing organisations and methods in the U.S.A., and the U.S.S.R. The Soviet Union is introducing even profit motive as an incentive to increase national output, which is a big change in attitude. In other socialistic countries as well, socialists are turning into uninhibited pragmatists. Douglas Jay, the new British President of Board of Trade, declared on assuming his office that the new "Government starts with no prejudice or bias whatever against private business." British Labour Government would renationalise steel but does not propose to touch private enterprise elsewhere. Socialist Governments are now generally reluctant to turn to nationalisation because they do not expect much out of it which private enterprise identifying itself with social welfare cannot give. The President of a Swedish bank is reported to have observed that nationalisation of industry is a dead issue as long as private enterprise shows the ability to continue expanding the economy.

In fact, private enterprise has itself undergone a transformation. It has come to realise its social responsibility in growing measure; and it is no longer attracted by the cult of paying low wages and charging high prices. It believes that it is better business to pay decent wages and charge low prices, and cater assiduously to the markets for mass consumption goods, which are huge and ever widening because of the prosperity of working classes. Its old hostility to Government participation in business is also disappearing; and public and private sectors co-exist in the U.S.A., the U.K., France, Italy and other countries. Trade unions themselves have become more realistic and have begun to appreciate that society can advance rapidly through private enterprise *per se* and that their rank and file are participants in the resultant prosperity.

This is the type of society which is emerging in the western countries. This society is not committed sharply to any ideologies or slogans which are losing their meaning. Its commitment is only to the central objective of rapid economic growth so that poverty which envelopes the major part of the globe can be relieved; and its approach to this problem is mainly technological and pragmatic. In other words, it is discovering and applying techniques of rapid achievements in all the fields, including technology and social sciences, by cutting across ideologies and doctrinaire beliefs. Consequently, dogmas and doctrines are at a discount ; words and slogans are losing their hold over human mind and action; what matters most is the precise, perceptible and measurable gain in terms of human happiness.

It is imperative that we in this country move with times and attune ourselves to the spirit of the age. Ours is an ancient country with a deep-rooted culture, and we have hoary traditions of philosophic speculation. We instinctively look for precise meanings of words; and love to argue the appropriateness of using certain words in a particular context or for a patricular purpose. We often forget that words are not so important as their contents; and the contents are not so important as action to make them realities. But even this contemplation rarely matches with equally fervent action. Contemplation has become perhaps our national disease. It is, I suppose, not an uncommon experience that when some national problem bothers us, we sit down to tackle it with proper earnestness and anxiety; seek to define and analyse the problem, taking great care to use words in their precise shade of meaning; and we reach the highest level of seriouness in diagnosing the underlying causes, at which stage the discussions become really warm. This done, we seem to detach ourselves from the matter, with a smug sense of achievement and a feeling that nothing very much more needs to be done. But this is paraphrasing a problem, not solving it. What is really required is that we formulate policies and practicable lines of action; execute them effectively; evaluate the results of our action; and feed them back at the policy-making stage. John P. Lewis says that every western social scientist who arrives in India fresh from one of the South-East Asian countries exclaims over the wonderful crackle of concepts and insight he finds in New Delhi, packaged always in the superb Indian ability to articulate. But if he stays a while, he is almost equally sure to become critical of implementation.* Foreign scholars generally agree that India's implementing capacity is

*John P. Lewis, *Quiet Crisis in India*, Washington: Brookings Institution, 1962.*

much below what is required to manage her real resources; and that her planners should concentrate in increasing the supply of "implementation input".

This, then, is a challenge to us: it is a challenge to reform ourselves attitudinally and to develop new capacities for substantial action which yields positive results and adds perceptibly to better living. We must learn to resist the spell that words cast on us. As a nation, we are tremendously taken in by words or catch phrases; and we are prone to accept as a national virtue almost anything that is served in nice terms or clichés by persons with prestige and power. Nationalisation, public sector, democratic socialism, social justice, emotional integration, and price stability—these are some of the examples of our commitment to words or notions. After the commitment has been made we turn semantic and begin to argue about the correct meaning of words, or expound their implications and significance. But the commitment itself is not questioned; and even when we receive messages which persistently call for a modification of the image, it is allowed to stand. Quite often there develops ambivalence in our words and actions. This explains the charge that developing countries are developing schizophrenic personality and the suggestion that they need psychiatrists more than economists.†

Even such a basic question as the relationship between the private and public sectors still needs a clear, unequivocal and enduring statement. After fourteen years of planning, it is a source of irritating uncertainty. It has become habitual on the part of some politicians to run down the private sector as a matter of habit; and when pressed to take a definite stand, they evade the issue by stating that there is no real conflict between the two sectors and that both must co-exist. This is surely not the best way of the disposal of important national issues. It is no use saying that there is no problem of private *versus* public sector, for the problem does exist in a very real form. The Prime Minister has himself said that "the private sector should know its role, its extent and the attitude of the Government towards it. All this should be clearly defined. It seems essential that the issue is brought out in the open and discussed

†*I. R. Sinai, The Challenge of Modernization, Norton, 1964.*

freely and without reservations; and a clear-out decision reached with a certain measure of finality.

I should like to suggest a value-free approach to this problem, and the adoption of operational efficiency as a criterion of judgement. Except where political or non-business considerations must prevail, an enterprise should be set up under the more efficient form of ownership which is likely to have a lower cost per unit. We cannot forget that the Government does not have unlimited financial or managerial resources; and private entrepreneurs do not enjoy unlimited freedom. Both need to be disciplined to serve the best national interest. If profit-motive is anti-national, so is inefficiency. It is illogical that we should be intolerant of the former but do not frown upon the latter.

I do not even insist that the efficiency criterion should be decisive or final. But some technical criterion of judgement should be unequivocally adopted after careful thinking; and then it should be consistently adhered to. If this criterion leads to the decision that private sector should be abolished, then I would say that let us proceed to do so methodically and expeditiously. We may then evolve a policy of phased nationalisation, taking care that the economy is not dislocated during the transition and the post-nationalisation functioning of enterprises does not suffer a loss of efficiency. If, however, the decision is to continue the system of private enterprise, then let us reconcile ourselves with its continued existence. It would be logical for us in that case to create conditions for its healthy growth, although we must devise an administrative machinery which has the capacity to make it conform to the necessities of social welfare. We may then judge its performance from the most strict standard but not with the yardstick of an ideology which is hostile to private ownership as matter of principle.

In deciding this question, we will have to remember that numerically most of the enterprises in this country exist in the private sector, and they produce and distribute about 90% of our goods and services and keep the economy going. Unless we are quite sure of our capacity to carry through their nationalisation and operate them efficiently under public ownership, it may be too much of a national risk to think of abolishing them or to make them feel shaky about their future.

I sometimes wonder if there is an ambivalence in the attitude which is committed to the termination of private ownership but which is indifferent to its existence in private agricultural farms and, in fact, supports its introduction in cottage and small industries. One suspects that the underlying hostility is not to private ownership *per se* but to its bigness. This is so clearly unrealistic that it will have to reconcile itself to the factor of bigness sooner or later, for bigness is quite independent of the form of ownership. The logic of modern technology is towards the formation of large units if they are to be viable. For quick economic development, efforts have to be of a minimum critical size, and we have to learn to initiate and handle them. Democracy is said to be an age of small men; but it is also an age of big problems; and big problems cannot be solved by ignoring their bigness, or by looking down upon them for their size, or by fighting shy of big solutions.

From the point of view of operational efficiency, private enterprises have given a better account of themselves than public enterprises. The latter have not yet established a record of efficient working in spite of the resources and facilities put at their disposal. Most of the available evidence goes against them. Among the reasons that have been assigned for their inefficiency are such factors as over-capitalisation, over-staffing, lack of experience and poor management. The Finance Minister says that the main difficulty in public enterprises is the difficulty in getting "the right type of men to lay down broad general policies of work and to see that they are adhered to" and who are "sensitive enough to be responsive to the changes taking place in and around the enterprise."* The Estimates Committee of the *Lok Sabha* (1964) mentioned the tendency in public undertakings to employ in the initial stages the staff required for full production; and thought that over-staffing has resulted in low production, higher cost of production, larger expenditure on labour colonies and difficult labour problems. An enquiry into the working of 41 public enterprises recently made under

**S. S. Khera, Government in Business, Bombay : Asia Publishing House, 1964, p. x. Introduction.*

instructions from the Finance Minister is reported to have concluded that, except for the Hindustan Machine Tools, they are inefficient operating units. There have been shortfalls in the surpluses envisaged from public enterprises for reinvestment during the period of the Third Plan.

The Central Government Audit Report for 1964, which covered the working of 46 Government companies during the year 1962-63, found that they had incurred on balance a loss of Rs. 12 crores *before providing for taxation:* 12 of these companies had suffered a loss of Rs. 31 crores, and 34 companies had made a profit of Rs. 19 crores. Only 11 companies could manage to declare a dividend, which amounted to Rs. 1.54 crores only. It comes to 6.4% of the paid-up capital of these 11 companies, but only to 0.2% of the paid-up capital of all the 46 Government companies. This is a disappointing record, particularly when it is seen that the public enterprises enjoy many privileges denied to private owners. The problem of raising capital, which is a difficult matter these days, is not encountered by them. The specially low rates at which the Government gives them loans is an enviable advantage. Whereas joint-stock companies may have to pay as high as 9% per annum on debentures, Government companies may get loans at the low rate of interest of 4% only. In fact, they are sometimes advanced loans which are free of interest. The Government also grants to its companies "interest holidays" and moratorium for repayment of loans, as and when necessary. For instance, the Government granted on March 31, 1962, "interest holiday" on loans amounting to Rs. 357 crores in the case of the Hindustan Steel, and the recovery of a sum of Rs. 40 crores was waived in 1962-63. It, again, granted moratorium of repayment of loans to the extent of Rs. 3 crores to the Indian Oil Company for two years, and to the National Coal Development Corporation to the extent of Rs. 6 crores for a period of two or three years.

It seems, at least for the time being, that the people are paying a heavy price for the ideological preference for public ownership. I find that, on very reasonable calculations, the social cost of maintaining the 46 Government companies mentioned above was Rs. 211 crores in the year 1962-63. In other words, had these undertakings been established in private sector and had they been managed with the degree of efficiency normal to private owners, national income would have increased by Rs. 211 crores. This would have raised income *per capita* by Rs. 4 or by 1.5%.

Let me state very clearly that I do not have any doctrinaire bias in favour of private ownership. A cynic observes that you can sell Capitalism in developing countries by calling it Socialism and in advanced countries by calling it social responsibility! But I think I am socialist enough to believe that if ownership is a neutral factor from the standpoint of attaining maximum efficiency, an undertaking should be set up under public ownership. But I do confess to having a strong bias in favour of basic efficiency, and feel convinced that it is a proper criterion for choice-making between public and private ownership. I would be very happy if poverty of the people can be relieved by a rapid expansion of public ownershp: I would be all for it. And if this is not so today, we must bend all our energies to make it a reality in near future. If efficiently-functioning and forward-looking forces can be combined with lack of profit motive under public ownership, India would have forged an invaluable social instrument of economic advancement. It will have a great meaning for other developing countries besides ourselves. But I am also quite clear in my mind that if the private sector continues, it must be brought to have concern for social good and conform to the social strategy evolved for this purpose. In a democracy with a developed social conscience, it should be possible to prevent private owners from going off the rails. The more our administrative apparatus gathers the capacity to enforce social controls and the more our political apparatus frees itself from the need of financial dependence on private owners, the greater would be the chances of prosperous and expanding private firms operating in the dimension of social good.

I may give another instance where an idea or cliché has got hold of public mind, and where ideology seems to be playing a bigger role than reason. This is *monopoly* or *concentration of economic power*. I do not know the precise sense in which the word *monopoly* is being used in recent discussions. For if the term is used in the sense of single-seller situation, which is how several economists define it, then perhaps there is scarcely any serious monopoly problem in this country. But monopoly is a dirty word; and one might wonder if the phenomenon to which this label has been given is really dirty or if it is made to look dirty because it has been given this label. This is a matter of some concern because public conscience has been stirred to the point that a demand has begun to be made for the creation of a permanent watch and ward outfit which may possibly be armed with punitive powers. The phenomenon under discussion is perhaps best described as oligopoly, a situation in which the major portion of total output is turned out by a few firms: this can better be called, with a view to avoid any possible confusion or misunderstanding, a *dominant firms situation*. Now, there can be no question that in several industries in this country, only a few firms are in active production, and each of them is responsible for a substantial proportion of the total output; and if there are some small firms as well, they do not count for much. But the real question is whether the dominant firms situation is hindering economic growth. Do we have adequate objective evidence to prove that dominant firms in India have pushed up prices artificially, or deliberately restricted production, or prevented other firms from entering into the industry? If we do, then we should lose no time in formulating a workable and realistic policy which conforms to ascertained facts and implement it vigorously and effectively.

In a developing economy, the emergence of oligopolistic tendencies can be a necessary concomitant of growth at a certain stage of development; and I would like this hypothesis to be fully tested in the Indian scene. It is true that several industries in India are dominant firms industries. But the real question is whether this dominance is of the firms' own seeking or it is the natural result of certain social facts and situations beyond the control of entrepreneurs. There are at least some facts which do seem to indicate that the latter is possibly the case. In a developing country, entrepreneurship is habitually scarce; and when its economy is getting diversified and is branching off into new lines of production under the impulse of an economic plan, it is natural that the entrepreneurship that gets deflected in these new channels would be very limited. Oftentimes, the number of firms which would operate in a particular industry is restricted by the Government itself through its licensing policy, allocation of raw materials and foreign exchange, and so forth. It is also well known that older and bigger firms get official preference in matters of foreign collaboration, import and hirepurchase of machinery, grant of loans and in other respects; and small firms are at a distinct disadvantage. To the extent that this is so, the number of firms that would constitute an industry is to a significant extent a matter of official decision. In fact, there may be quite strong technological reasons also why the number of firms in an industry is limited, as would happen when the technological optimum of a single unit is large. In our country factors of production are in short supply and terrible shortages of raw materials and other resources exist; and consequently it is not possible for many firms to enter into an industry, even if entrepreneurship were more abundant than at present. Considerations such as these seem to suggest the existence of strong environmental impulses creating dominant firms situations.

It is sometimes thought that if the recipient of an industrial licence sets up an industrial unit but does not operate it at full or near-full capacity, it is a trade restrictive practice. One must ascertain the real cause of actual production being below the optimum; and this cause may well be beyond the control of the licencee. Idle capacity, in a wide range of Indian industries, is occasioned mainly by lack of inputs like power, spare parts and raw materials. If, however, the situation *is* capable of improvement, the matter can perhaps be administratively handled by including a clause in the terms and conditions of the licence that production shall have to reach a certain level within a given period of time; or else the Government would take up or transfer the ownership and management of the new unit. If such a policy is realistic and is properly enforced, there seems to be no reason why this problem should at all arise. To invoke the whole ethics of monopoly to meet a simple situation is like using a sledge hammer to break a nut.

We need not feel concerned at the present stage of our development so much about dominant firms situation as we should about the efficiency operation and the growth of the firms.

Even if we ignore the factor of the internal vigour of enterprises for self-expansion or for entering into new avenues of business activities, the Government must accept the achievement of maximum efficiency in production and cost reduction as its decision criterion. A cost reduction programme is of great urgency because high costs impose a sacrifice on consumers and narrow down export markets. In a planned economy in which shortages abound and the force of competition does not urge enterprises to keep themselves in the pink of efficiency, the planning authority must take guidance from cost factor and use it as a lever for gearing up productive units to rising standards of efficiency. It should fix certain minimum standards in this respect, encourage efficient firms to be more efficient, expect and help inefficient firms to reach standard efficiency, and decide official preferences on this basis. If efficiency in production and cost reduction are made our goals, many of our policies would be very different from what they are today.

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*The views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise.*

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

—A. D. Shroff

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Published by M. R. Pai for the Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by S. J. Patel, at Onlooker Press. (Prop. Hind Kitabs Ltd.), Sassoon Dock, Colaba, Bombay-5.

10|May|1965