

IS INDIA READY FOR CHALLENGE OF 1980s?

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By

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For the older generation which participated in India's freedom struggle, India's plight today is a distressing one. For the younger generation, keeping abreast of developments elsewhere in the world, it is a perplexing scene. For, India today is like a giant in chains—chains which are carefully designed and forged, and clamped on oneself.

How else could one explain unending paradoxes in the economy? A buffer stock of nearly 20 million tonnes of foodgrains on the one hand, part of which deteriorates owing to unscientific and obsolete storage facilities, and on the other hand millions who do not have purchasing power to buy them.

As world-renowned economist, Prof. Colin Clark remarked, our farmers, given proper conditions and policies, have the capability of producing huge quantities of foodgrains. In spite of our tall claims of increasing foodgrains production from about 56 million tonnes in 1951, when planned economic development was initiated in the country, to about 130 million tonnes over a period of 28 years, our faulty economic policies have pushed greater number of people below the poverty line. It is, of course, some consolation that the stored foodgrains are used for Food-for-Work-Programme to alleviate the distress of a part of the population. This, however, is a poor consolation to millions of people who look forward to economic opportunities on a long-term basis.

Text of Presidential speech at 23rd Annual General Meeting of the Forum of Free Enterprise in Bombay, on 13th November, 1979. Mr. Doshi is an eminent industrialist and public worker.

Gainful employment is an important indicator of economic strength. Here again, the record is not a creditable one. The condition is so bad that the Planning Commission has given up efforts even to collect figures of unemployment. The number of people who are registered for jobs and for whom jobs are not found by the Employment Exchanges has gone up from 34 lakhs in 1969 to 136 lakhs in 1979. That this need not be so is underlined by the fact that in merely one area of economic activity, viz. Gem, Jewellery and Diamond exports, our people have demonstrated skill and enterprise enough to stun economic pundits. There is such a huge reservoir of skills in craftsmanship and trading that exports have gone up from a mere Rs. 10 crores in 1965-66 to Rs. 120 crores in 10 years, and currently they have reached Rs. 700 crores mark. In fact in cutting and polishing diamonds, India is on its way to displace Antwerp and Tel Aviv. Given proper economic policy measures—if the Government does not put more obstructions in the way of this industry—the foreign exchange earnings would soar up to Rs. 2,000 crores per year, according to experts in the line. The significance of such development does not lie merely in foreign exchange earnings. It is the huge job potential, in a decentralised manner, that is of greater significance. Artisans and craftsmen earn Rs. 30 to Rs. 50 per day working at their homes or in small units. There are many other areas where with proper marketing and production policies, similar progress can be made. To cite but one instance, a group of women who started manufacture of 'Pappads' with a few hundred Rupees of capital have developed a multi-crore organisation with substantial exports.

This is the potential of the sleeping economic giant in India for whom, unfortunately, Government's economic policies are forging more chains as we shall presently see.

Let us take another aspect of the economy—foreign debt: From a mere Rs. 32 crores of foreign debts in 1951,

we have piled up a huge debt of over Rs. 7,000 crores now. There is no lender country in the world, big or small, from whom we have not borrowed! First we borrowed to set up industries, then we borrowed more to buy raw materials, spares and components to keep those industries going, and then we continued to borrow to service earlier debts. In the meantime, Planners and Finance Ministry officials kept wondering how to repay the huge debts and maintain India's excellent reputation of meeting International obligations. All sorts of import restrictions and export promotion gimmicks were tried. The problem has been solved, but not by official policies. It is the illiterate, and semi-literate people of the country who have done it in an unexpected manner. These humble people, unversed in the economic jargon of foreign exchange controls and foreign trade theories, went in large numbers to the Middle East. Working under difficult conditions, they have been remitting every year about Rs. 200 crores of foreign exchange to the country. Instead of helping these small people by devising schemes of savings and creating avenues of fruitful investment for their earnings, the official machinery has been busy putting obstacles in their way. The plight of these people in getting passport and in clearing the obstacle race in the Customs and Emigration Departments is to be seen to be believed. It is as if official economic policies are geared to one objective—show any enterprise anywhere, some policy measure will be introduced to put a monkey-wrench into it! This sort of policy and attitude have created among the people an image of Government not as a protector and promoter of citizen's interests and talents, but as an Agency, putting obstacles in people's path of self-development. Most of these policy measures are supposedly to curb malpractices, but in reality they turn out to be new opportunities for corruption for politicians and bureaucrats. People have now come to a stage of not only accepting corruption as an unavoidable evil, but as a positive solution to their problems. To say that the Governmental machinery—

at every point where it touches the life of the people—has become an engine of corruption and oppression is not an exaggeration.

The industrial scene is no better, just because it is better organised. Installed capacity—an achievement considering the various formalities, permits and licences required to set up or expand a unit—lies unutilised to a large extent, thus wasting precious capital assets as also job potential. Critical inputs like coal, electricity, diesel, transport and credit are in short supply. These are areas predominantly in the domain of State ownership and Planning. Power shortages have manifested themselves over the years and no serious attempt has been made to tackle this problem on a priority basis. The result is economic disaster. The entire industrial complex of Bombay came to a standstill recently by a 100 per cent power cut for some time. Calcutta's plight made national headlines. Small industries in Punjab and Haryana industrial belts have fared no better. The reasons for this muddle are varied, but they point in one direction—lack of seriousness, and managerial incompetence on the part of the authorities. For instance, monsoons are known to vary in intensity, and Hydel Power stations always plan for an eventuality of poor rainfall in successive years. Coal and Railways are both nationalised industries, but are engaged in the game of blaming each other while power plants are being starved of coal supplies! When we reach a situation of Chief Ministers rushing to Delhi to appeal to the Prime Minister for coal supplies—as if that is the prime function of that pivotal post—one can well imagine the bankruptcy of economic policies which have brought about this sorry state of affairs. Yet, while power plants are operating at 46% capacity, our talented electrical engineers are used by other countries in designing and operating their power systems efficiently. There is still no appreciation of the seriousness of this problem. On the contrary, power cut has been accepted as part of economic policy, and according to reports

in some States it has become one more tool of corruption to extort money from industrialists.

A major symptom of economic sickness is the raging inflation in the country. The price level today is about 17 per cent above last year's. This increase is not an isolated event, but part of a process which started in 1956. Except for a nominal drop in prices towards end of 1968, and brief downturns in price curve from September 1974 to March 1976, and again between 1977 and early 1979, inflation has been an integral part of the Indian economic scene. Attempts to explain away inflation by calling it an inevitable concomitant of economic development cannot hide the ugly fact that it has inflicted misery on millions of poor and fixed income group people, that it has penalised savers and rewarded speculators in real estate etc., that it has made anti-social shifts of income from the honest to dishonest citizens, and, finally, that it has created a vested interest for politicians and bureaucrats in the perpetual scarcity of essential items because scarcity means controls, which in turn gives these two classes power and patronage of a most obnoxious type.

Inflation is the direct outcome of mismanagement of the economy. Basically, it means more money chasing relatively less goods and services. More money than the economy can absorb is created by deficit financing. This in turn is the result of Government at the Centre and States living far beyond their means. When they indulge in spending money beyond available resources, deficit financing and inflation become inevitable. Warnings against huge budget deficits have gone unheeded and contrary to ridiculous claims of Finance Secretaries after the Budget every year that as a result of budget measures only a nominal price increase was likely, prices have galloped merrily. It should be noted that the revenue budget is generally in surplus while capital budget is in deficit. Even after heavy taxation in revenue budget to finance capital budget deficit, there is a gap

which is filled in by deficit financing. The Government is attempting to invest non-available resources. Unfortunately, most of these investments are unremunerative. The fire of inflation is once again fed by wasteful expenditure.

It is sad to note that after virtually 25 years of inflation there is no appreciation of the dangers of inflation among politicians and bureaucrats.

Sporadic attempts to curb inflation prove counter-productive. The latest example is the credit squeeze imposed on the organised sector of the economy by the Reserve Bank of India. The theory behind credit squeeze is to make bank credit expensive and difficult to obtain. Industries are supposed to cut down inventories, find ways and means of better utilisation of men, machineries and materials, and in other ways to cut down costs. This is good text-book stuff, which however differs radically from the realities of Indian situation. Normally industries do not wish to build up big materials, particularly when the State Trading Corporation or Government companies are sole suppliers of such material, industries are compelled to hold more stocks than are required for immediate use in order to prevent production stoppage. Moreover, the organised money market is only a small segment of the total money market. Bulk of transactions take place in the unorganised and unregulated credit structure of the economy. Generation of black money over the years as a result of heavy taxation and rigorous controls has only complicated this situation. While many transactions take place with black money or in unregulated money markets, the Reserve Bank is attempting to control about Rs. 20,000 crores of Bank credit, a portion of which is pre-empted by Government for food buffer stock and public sector undertakings. The end result is exactly contrary to what the Government is aiming at. Productive organised industries are starved of essential working capital. Some units are closed down, and others operate below the installed

capacity. Energies of the management are directed to fire-fighting operations on the bank front on a day-to-day basis, instead of being engaged in increasing production.

There are many other undesirable results of this unwise policy. First, all-round increase in prices and wages as a result of the inflation-psychosis; second, industries are compelled to pass on to the consumers the higher costs in the form of higher prices of final product; third, industries work most of the time only to pay taxes to the Government and interest to banks. The Banking sector, in the meantime, is allowed to remain inefficient. It is shocking to note that the Government has allowed a wage settlement in the Banking industry which gives Rs. 40 crores a year to employees without guaranteeing higher productivity and an end to restrictive practices as was originally agreed to, when the Bank Employees' agitation was withdrawn earlier in 1979. It is not only the borrowers who have to pay more for their borrowings, the depositors are also penalised. From September 13, 1979, interest rates on deposits were increased, but the benefit of higher rates was not extended to existing deposits. In July 1974, such a step had been rightly taken. The failure to do so, obviously to help the banks to continue their inefficient operations, is a penalty on millions of pensioners, retired persons, orphans and widows as well as fixed income group people who save for the country on a long-term basis by investing in Fixed Deposits of Banks. What sort of economic policies is the country following when inflationary forces gather momentum and savers as well as productive enterprises are penalised while managerial inefficiency and financial indiscipline are encouraged in the Banking Sector?

Another reason for the present crisis is the confusion over the role of the State in generating wealth. It is presumed that state ownership or extension of what is generally described as the public sector will solve problems of poverty and social injustice. With this dogma, which has been renounced by even European Socialistic States,

the Central and State Governments have entered into many spheres of business and industry. The results are disastrous for the country in two ways.

By taking over industries like coal, there is a crisis of production, inferior quality, higher prices and maldistribution resulting in disruption of power generation, which in turn has resulted in closure or partial operation of thousands of productive enterprises and lay-off of workers. Since items like coal are basic inputs for many industries, the entire cost structure of the economy has been pushed up.

Even economic activities like bread-making, soft drinks and bus transport, which should be managed by citizens themselves, have been taken up by the Governments. Because of procedural and other inherent restrictions, these State enterprises cannot be run on commercial lines. Hence they sustain losses resulting in subsidies paid to them from the general exchequer, and an artificially high pricing of product or services which means, in reality, an extra burden on poor users.

It looks as if the words 'Operational Efficiency' are unknown to the policymakers in the Government. This is evident from the response to higher costs of State Enterprises. Instead of increasing operational efficiency, they are allowed to increase the price of their products. The blame does not lie necessarily on the Managers of State enterprises. Many of them are capable executives. But they are unable to operate efficiently because of Governmental procedures, interference by politicians and domination by the Governmental secretariat which does not have business experience or acumen, but presumes such competence by virtue of its administrative power. Most of the elected representatives are virtually puppets in the hands of the bureaucracy. Either they fight with the bureaucracy which has its own ways of fighting them back, or submit to its manipulations. They do not have the competence to make use of the bureau-

cracy as a tool of public policy by assigning to it, its proper place of administering the country instead of giving it commercial and industrial functions which it is functionally not meant to handle. In this context, it is noteworthy that official policies in our country depend on the whims and fancies of individual Ministers. In countries like France and Italy in spite of many changes in Government, the same policy is administered by the permanent civil service. There is certainty and continuity of policies over a period of time.

The second disastrous effect of an expanding public sector is the gross neglect of essential public functions by the Government. Financial as well as administrative and managerial resources at the disposal of a Government are limited. When these scarce resources are spread thin over a wide area, primary functions of the Government get neglected. The deteriorating law and order situation in the country, the gross neglect of basic amenities such as safe drinking water, primary education, village roads and national highways, infrastructure facilities like postal services and telephones, and public health measures, even after 30 years of independence, is a direct result of the obsession of the Government with secondary activities. Just to illustrate its baneful social impact, recently it was pointed out in an article in a newspaper that children of 5-6 years of age are made to work for long hours in unhygienic conditions in match-industry in small-scale sector in one place. Why does not the Government enforce proper working conditions, although there are many labour laws which are rigidly enforced on larger and organised sector? The reason is that the Government is preoccupied with secondary activities which could as well be done by citizens.

The root cause of our economic ills is the obsession of many politicians with what can be described as Synthetic Socialism. It has meant in practice statism, and hypocritical attitudes. The ceiling on executive remuneration is one example of this. There is one standard for

companies and another for Ministers and Legislators who enjoy huge perquisites although they get relatively small salaries. The ban on company donations to political parties is another instance. While legally they have been banned from contributing to Political Parties, industrialists are pressurised to give funds to them! A time has come to put an end to this double standard in public life.

The next decade of 80's is going to be a decade of various types of challenges such as population explosion, shortages of all types including food and fuel, development of innumerable technologies rendering the present ones obsolete, varying rates of stagflation and many other known and unknown factors. The developing countries are likely to suffer the most during this decade, particularly countries like ours where we already have a higher rate of inflation and shortages. The main question is whether we are equipping ourselves to face these challenges, so that the sufferings of the toiling masses can be reduced to the maximum extent. We have been reading in the newspapers that our buffer stock of 20 million tonnes, of which we are so proud, are disappearing in this year of serious drought, and production may suffer to a very large extent, due to all-round shortages of energy. Oil prices are increasing every year and nobody knows where they will stop. Our foreign exchange surplus may disappear only in paying the cost of importing fuel for our industries and other requirements. Our trade balance is likely to get more and more adverse, as we are compelled to import many essential items to avoid a normal increase in prices, but our exports are not keeping up the necessary rate of growth to meet the cost of increased imports. This may bring our country back to the period of late 50's or early 60's when we were passing through a similar situation. I am sure, with the experience we have gained and the industrial base that we have created, we can certainly face the challenges of the next decade, only if we follow the right policy.

It is neither the Government, nor the business, nor the economists who can shape the correct policy independently. It is only the co-operation of all concerned that can meet these exigencies properly and squarely. This type of situation appears to be found in only a few countries like Japan, South Korea, Taiwan, Singapore, etc. The results of collaboration between various interests, as mentioned above, existing in these countries are visible to all of us.

Only vigorous public opinion can compel the authorities to give up dogma and to change the direction of economic policies. What speakers on Forum of Free Enterprise platform have been saying for the past 23 years; what its publications have been expounding has come true today. If there is public awakening on these matters, eventually public opinion will compel the authorities to change the disastrous policies being pursued. Public awakening is a slow process, and the result of sustained educative activity. There can be no doubt that this process having started once will gather momentum and an enlightened public opinion will transform public policies towards an era of plenty and prosperity.

The Question is: Can we make this happen?

Have you joined the Forum?

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

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). College students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

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