

SPIRIT OF FREE ENTERPRISE

RUSSI MODY



FORUM OF FREE ENTERPRISE

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

-A.D. Shroff

1899-1965

Founder-President

Forum of Free Enterprise

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By

RUSSI MODY *

This is a very good theme you have chosen - the free enterprise system, or "free enterprise", as you call it. I can never understand why it is necessary to discuss this subject, why it is necessary to discuss something which has now been proved beyond doubt to be beneficial to humanity, beneficial to the countries, their progress. Why is it necessary to discuss this situation at all ? All we have to do is to sit down together and say, "Look, this is what is going to happen and has to happen".

Now how do things happen in our country ? It is through the democratic process, which is good. They say that it is the worst form of government anybody has ever invented, except that they have never invented a better one, and therefore we are stuck with it. I think the only way to change things in this country is for more and more business people to talk politics.

* *The author is Chairman and Managing Director of the Tata Iron & Steel Co. Ltd. The text is based on an address delivered by him at a seminar on "Spirit of Free Enterprise" under the auspices of the Confederation of Engineering Industry (Northern Region) on 3rd April, 1991, in New Delhi, and is reproduced with the kind permission of the author.*

I am not suggesting that we go in large droves into the legislatures or the Parliament, but to talk politics. And I can think of nothing better than to ape the existing politician and talk about raising of the standard of living of the poor classes, our poor, dumb millions who for all these decades have been fed with this one great slogan as to how every government is going to lift them up and put them into the hands of progress and prosperity, and instead of which we have gone deeper and deeper into the mess until we are now a country which is literally and physically broke. We have no money left. Now whilst on the one hand you have slogan-mongering amongst the politicians - it is a very good vote-catching thing, though I am not so sure how long it will last - on the other hand, we (when I say 'we' I mean business people and industrialists) are in a position to change that if we have an opportunity.

Let us look at what has happened, shall we say, a little into history. Roundabout 1850 or so, which is roughly 100 years after the steam engine and all kinds of gadgets and things that were produced technically, we started what is known as the Industrial Revolution. And it was unbridled capitalism, labour was exploited, consumers were exploited. But it produced wealth, it produced wealth for the countries. It, however, left many sore spots in this pursuit of building up of the industrial society. As a reaction to that came the Socialist, the Fabians - Sydney and Beatrice Webb - a further refinement,

Karl Marx. And so it is not only that an economic system was being attacked, but the total political history of the world was changed, because it was found when Karl Marx propounded this theory that this change from unbridled capitalism to a more equitable distribution of wealth could only be brought about through the political process. And therefore Nation States were formed. Russia was the first State to be formed. Russia felt that this was being confined to its own borders, that this movement was a world-wide movement, that it had to go further. Ultimately China came in, but before that, Russia surrounded itself with like-minded countries.

What they all failed to recognise was that inside every single individual - you and I and everyone - there is a spark which is undefinable. You cannot call it by any other name, I will call it the spark of wanting to be free, free not only industrially and economically, but free politically, free from dogmas, free from all kinds of things, this freedom that is inherent in the human nature and which cannot be measured, but undoubtedly exists. That was not recognised by the Marxist system. What has happened? I happened to be fortunate enough to be born in the year in which the Russian Revolution took place and I am equally, even more fortunate to be alive when I have seen the death of all that it stood for, all that it meant. That the communist system is dead and gone nobody can deny. It is now a question of picking up the embers, and within the next 5/10 years the word

'communism' will become a bad word, just as there have been so many other bad words throughout history.

What has occasioned that? That has been occasioned by the simple adage, 'an ounce of practice is worth a ton of theory'. The Marxists can theorise as much as they want about the distribution of wealth, about everything that they talk about, but they cannot get away from the fact that all the countries under Russian domination, under the Marxist domination are poor countries relative to the western countries. You see for yourselves the progress made by countries like Japan, Taiwan, Korea, Singapore - which we have heard so much about just this morning. Not it is Thailand. Wherever the shackles of economic control by government has been thrown off, the countries have leapt forward. USA, England, France, Germany are, shall I say, classic examples.

It is not that we in Asia cannot follow. We can follow. We do follow. Why in the middle of this far-eastern block and this western block is poor old India? Why are we left behind? Is it that we are not capable? Is it that we do not have the wherewithal to emulate our brethren in the west and in the east? The answer, of course, is no. Once again, you can see it for yourselves. There is no such thing as a failure of an Indian outside of India. Every Indian that leaves the shores of India achieves success - whether he is selling jeans in Piccadilly Circus or whether he is an atomic scientist, whether he performs wonderful service in

the British medical services, or whether he is teaching in colleges, whether he is in computer firms. Do you know that firms like IBM and others come in the third year, or on the beginning of the fourth year, to all the IITs, which as you know are our great institutions of technical learning, and they pick up every single computer fellow that passes out. And they take them to the States by offering them lucrative contracts straightaway. It is not that our abilities are not recognised. We know that we are a bastion of, shall I say, technical skills which countries freely draw upon. An entrepreneur from our country going to the United States has multiplied his wealth, flourished and today Indians have displaced the Jewish community as the richest ethnic group in the U.S.A. against all free competition! All the wealth that he is producing for England, for Germany, for France, for America, for everywhere else, is denied to his own country! It just boggles my imagination to think what is happening in our country. Why is it that we cannot have the same spirit of free enterprise which we see succeeding so well elsewhere?

Coming back to where I started, I think that this message has to now go down to the people. And not with a slogan but as something that we can prove and them that, left alone to manage our affairs, we can do wonders. There have been a couple of stalwarts of this free enterprise system. One is the recent Prime Minister of Singapore, and the other is dear Maggie

Thatcher in the U.K. Another great proponent of this system was Ronald Reagan. I don't think he was intellectually their equal, but he nevertheless managed, because of the influence that he had in the States as President, to put through a large number of reforms. Specially he had the belief which has proved again - contrary to normal expectations - that the lower the taxes, the higher is the income of the Government. It is a paradox maybe, but is a fact.

Let me just read out to you something that I have collected here. We have been told that Singapore is a small country and cannot be compared to India. Now U.S.A. can certainly be compared to India in size - it is geographically much larger than India - if not population-wise.

'The economic expansion in the U.S.A. that began in the year 1982 - to be precise, October 1982 - a year after the first phase of the 3-year tax-cut went into effect, created more than 18 million jobs by 1988. (In six years 18 million jobs were created!) Also the percentage of Americans employed at good jobs rose to an all-time high. The 25% tax cut touched off a surge of growth in America that brought down inflation, interest rates and unemployment, and created a cascade of additional tax revenue for the government'.

Now comes the most interesting part, and it concerns us very much and it has already been referred to in this morning's discussions :

'Industries employing less than 20 people were responsible for creating 2/3rds of the jobs in the U.S.A. during 1980 to 1986.

We are not an under-employed country, we have vast unemployment. And here we have seen what happens when the economy is freed.

I mentioned earlier that we were broke, broke in foreign exchange, broke in resources. How have we come to this pitiable state? It is sad to realize that we brought this upon ourselves. And when I say 'we' I am particularly referring to our Governments - not only this one or the recent one, but governments since Independence. The Democratic Party spokesman in the United States at one time, whom everybody has heard of, was a fellow called Thomas Jefferson, and he said at that time :

'A wise and frugal government which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement and shall not take from the mouth of labour the bread it has earned. This is the sum of good government'.

By this token, I am afraid, we have hardly ever had a good government in India. Right from the days of Jawarharlal Nehru until now, successive governments have put their finger in every pie and brought virtual ruination of the country, none of them ever realising that is has no business, or that the greater the freedom given to the individual, the greater will be be the

prosperity of the country and its people. Margaret Thatcher - coming down to our modern times - who knew what a good government was all about, set an example in industrial management which a country like India would do well to emulate. As a matter of fact, we have had two outstanding strong Prime Ministers in this century. One has been Margaret Thatcher, the other has been our own Prime Minister. The only difference between them was that they were both strong, but one had good ideas and the other didn't. And therefore during a long reign of 17 years we have been faced with economic cobwebs which have lost their relevance in the modern world. Thatcher made a complete departure from the practice of bailing out a government-owned company with a big subsidy whenever it went into the red. She said 'No, we are not going to do that. You must accept the consequences of your irresponsibility. You are not making the right products, your price is too high. Out you go'. This was her philosophy and she has turned the nation - this small, but hard-working industrialised nation, - turned it round unrecognisable from what it was, say, 10, 12, 14 years ago. She has brought pride back into the people. They did not think it was worthwhile to be a Britisher any more, but she has brought it all back again by following sternly and strongly this belief that, left to the people, the people will right themselves. It has often been said that, in doing so, other evils are generated. I at least believe firmly that individual initiatives are irreplaceable. You cannot equate them with collective

behaviour. Collective behaviour, whatever it may do, however good it may be, however nice it may sound, is not a substitute for individual initiative. And that is why the communist system has failed.

Adam Smith is regarded as the intellectual champion of self-interest. He sees no moral virtues in selfishness. Far from praising it, he merely looks at self-interest as a living force and explains how this potentially destructive impulse is harnessed to the common good, a selfish interest harnessed to the common good. Smith's answer to greedy producers raising prices is competition. If they put up prices too high, they create opportunities for one or more among them to profit by charging less and selling more. In this way, competition tames selfishness and regulates prices. At the same time, it regulates quality. This mechanism explains the paradox of private gains yielding social goods. As Smith is convinced, the market which delivers the goods he wants it by and large left alone.

Now this was Adam Smith a few decades ago. We are broke today for very simple reasons. We have overspent, we have spent unwisely and we have not been efficient enough to get a return on our investment. One of the reasons why we have gone in for this lopsided way of managing our economic affairs is that we have got too many economically intellectual giants in our country. The great pity of that is that each one of them thinks differently from the other and the one surest and simplest way shown by other countries, and now accepted as almost

normal, has been rejected by them, viz. leave the individual alone, don't give him your theory, let the individual decide what he will do and what he will not do, what prices he will charge and what prices he will not charge. Admittedly in the modern world, this is somewhat of an over-simplification, but it does not change the basic thing which I am trying to say. And that is, that the freedom of the individual guarantees a lot of things to us. It guarantees prosperity, it guarantees to the Government additional revenues, it guarantees competition, it guarantees lower prices, it guarantees a whole host of things.

And who does all this? The small entrepreneur employing as he did in the United States, less than 20 people in an enterprise. That is the great lesson we have to learn. That the economic progress of country is achieved not necessarily, as Jawaharlal Nehru imagined, by having large, big enterprises. The smaller enterprise, the enterprise that has a shorter gestation period, the enterprise that brings in money first, that is the enterprise we should go in for and not large-scale industrialisation as in the Russian system.

Anyhow, we have got it, we have to do the best with it. Now what do we do? How do we make the best of it? Run them efficiently. Let me tell you the magnitude of what is happening. If our public sector, - when I talk of the public sector, please I beg of you not to think that I am not aware of the fact that there are some notable exceptions in the public sector, but I

am talking by and large - in the public sector, where we have invested Rs.110,000 crores by now, if they were to yield us - in fact if you take the oil sector out of the public sector, there is a negative return on our investment. However, rich a country may be, can we afford to keep on putting more and more money into enterprises which don't give a return? We are bound to go broke. And that is exactly what has happened. We have gone broke. And on this Rs.110,000 crores if they could only by now have guaranteed a return of 10%, it means Rs.11,000 crores a year for the Exchequer, because it is publicly owned. And this Rs.11,000 crores would mean that your present deficit, which you are trying to reduce from Rs.8,000 crores to Rs.6,000 crores would become child's play. With only a 10% return. Every time you buy a share in a public utility or a private company you expect a return of more than 10%. This 10% return will enable the government to reduce taxes. Now if we reduce taxes and leave more money in the hands of the public, that money is going to be reinvested. It won't be taken out in the cream and sent to Switzerland. That money will not become black money. That money will remain here and be reinvested. But if you charge 50-60% taxes, people are going to say 'Why the hell should I work when I am only retaining 40% of every Rs.100 I make?'

What are we going to do? Are we going to be able to do this? The answer is 'no'. We have developed a system in the public sector where you cannot make

that sector efficient. Not for the reasons mentioned by my friend here this morning. We have some brilliant people in the public sector. They come from the same stock, background as we do, they are from the same universities that we came from. They are very good people. The system will not allow efficiency. It is the system that is wrong. And how does this system operate? It is no use saying "Let's get down to brass tracks. How does it operate?". We have a bunch of politicians who believe that because the State owns the enterprise and provides the money for it, that enterprise must be governed by the State, we have a right to ask questions. What are the kind of questions that they ask? They ask questions such as why so-and-so was given a contract and why not so-and-so, why this party is being favoured in preference to another party for expansion. These are the questions that Parliamentarians ask. There is a provision for the Speaker not to allow certain types of questions. Unfortunately, our Speakers in the last few decades have not been able to exercise that control, with the result that the Minister has a field day. The Minister says 'I have got to answer questions in Parliament. So I must know what is happening here, here, here'. The Minister has no means of doing it. So he does it through his Secretary. The Secretary says, Well, I am a wonderful fellow, I have got all the power and the authority of the Minister. I am now going to run the industry.' The Secretary sits in Delhi, the industry is possibly in Trivandrum, but he wants to run it!

I once visited a steel plant - I shan't mention names, but believe me this is a true story - where the M.D. (in those days I think he used to be called General Manager, anyhow he was the No.1 man) told me of the constant interference from Delhi. So I went to see the Minister after this visit and I told him frankly that I was a little perturbed about this and I said 'Why don't you leave your enterprise alone? Why do you keep on constantly interfering?' He said, 'Mr. Mody, you have been totally misinformed. I have not issued one single instruction to anybody. You can produce one piece of paper and I can prove it to you that I have never issued instructions about employing this fellow or that fellow, giving the contract here or there'. I said 'Well, that is not the impression'. He said 'Produce it'. I said 'What about that instrument next to you? I was referring to the telephone. I said 'Don't you ever pick up the telephone and speak directly to the fellow? He said, 'I am the Minister.' He spoke in Hindi, 'Haan, yeh to meri farz hai. Salaah dena usko'. I asked 'What kind of 'salaah' do you give him?' He said 'Occasionally I pick up the phone and say "Look, this fellow is much better than the one you want to employ, so you employ him". I said 'Is that not an instruction?' He said 'Nahi, yeh suggestion hai. Weh nahin karna chahte hoge tho nahin karenge.' This was the reply given to me.

Now this is the kind of way in which the public sector has been going and unless we completely have a free economy, I don't know, I am not an economist, I am a

practical administrator of an industry. And if Jamshedpur today has flourished at all, I can assure you only of one thing, that it is the united effort of the people of Jamshedpur, the workers of Jamshedpur and the Management who, in spite of every possible harassment from the local and central governments in many cases - not to deny that many helps have also been given - but the fact is it is not a question whether you are giving help or not, it is a question of why should we go to you for sanction. If I want to spend Rs.5 crores or Rs.50 crores, why should I have to go to the Secretary of the Government and say 'may I do so?' It is my money, I am going to raise it. If you don't want to give it to me from the financial institutions, I will raise debentures. I will go to the public, the public will support me. No you have got to sit there and give me 'yes' or 'no'. There was a time when our last Prime Minister under the Congress Government, Mr. Rajiv Gandhi first came to power and we all had the euphoria about the 'New Millenium' coming in. And I remember asking a very distinguished civil servant who still is a very distinguished civil servant. I said to him 'How do you like this so-called liberalisation?' He said, 'Well, you know from the very earliest days, I was brought up to say and think that if an industrialist or a business man came to me, I was to say 'no' to him for the first 9 times and, if he still persisted, to give him the permission on the 10th occasion. Now suddenly, the Prime Minister's Office says issue him a licence straightaway. How can I do it? I am not accustomed to it.' He is a brilliant civil

servant, still very much in power and authority. I beg of you to realise the damage that is being done to this country by the coterie of people who believe that power has to be exercised, otherwise they are nothing. It is entirely false. A government has the right to control law and order, the right to formulate the foreign policy of the country, it has the right to look after the nation's defence, it has the right in so many other things, even telecommunications - it is almost impossible now for any privatisation to take place there. But why airlines, why STC, why MMTC, why MRTP? What are all these controls doing, like steel control, coal control and all the rest of it? Vast numbers of people doing absolutely zero productive work, and they are eating up the money that the government lacks today. No government has shown the will-power to go against that sort of thing. There is absolutely no need for a steel control today, there is absolutely no need for a coal control today. What is the MRTP doing? What is FERA doing for that matter - although I have a certain amount of sympathy, where we have a zero balance in the foreign exchange kitty, some sort of regulation should be there. But most of these controls are absolutely futile and they totally go against the spirit of free enterprise.

Everybody in the business community who has any voice at all should stand up and say that we don't want government to run our affairs. But unfortunately even amongst ourselves there are people who want to take a personal advantage by going to government

outside. Having first paid lip service here, they go to government - power of money talks often - and they get themselves the privileges that they want, with the result that the government feels quite secure in carrying on, and the bureaucrat loves his little power and position. It is a sad scenario but if we don't get out of it now, we never will.

Look at the opposition to multi-nationals. There was a time when you thought that economic wealth and strength could regulate the internal policies of a government Mexico showed that it is not true when it threw the Americans out of the oil-fields, the powerful next-door neighbour - it threw them out overnight. Nothing happened to Mexico. Mexico still exists and is a separate entity. Nothing would happen to us if we threw our gates wide open to multi-nationals, or whoever wants to come in. This 40%, 50%, 60% is all niggling away. You go to the World Bank or International Monetary Fund and you ask for a big, enormous loan which you have to start repaying with interest almost from Day 1 and add hundreds and thousands of crores of public dept. But if somebody wants to come in with his money, come in here, he will bring in know-how, he will put up a factory, he will provide employment for your people and he will only repatriate the dividends he gets after the company has become successful - and you say "no, you can't have more than 5%, 10%, 15%, 20%,". Surely we are big enough now to realise that that sort of niggardly thinking does not do our country any good.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

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

-Eugene Black

FORUM OF FREE ENTERPRISE

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

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Published by M.R. Pai for the Forum of Free Enterprise,
"Piramal Mansion", 235, Dr. D.N. Road, Bombay 400 001.

Laser Typesetting by GRAPHTECH, Tel: 261 7479

and printed at Vijay Printing Press,

9-10, 3rd Floor, Mahalaxmi Industrial Estate,
Gandhi Nagar, Lower Parel, Bombay 400 013.