



The  
Bombay Plan  
and  
Other Essays

Forum of Free Enterprise

*the second A.D. Shroff memorial lectures*

**THE BOMBAY PLAN AND OTHER ESSAYS**

## FORUM OF FREE ENTERPRISE

**THE** Forum of Free Enterprise is a non-political 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/- (entrance fee, Rs. 5/-) only. Bonafide students can get our booklet and leaflets by becoming Student Associates on payment of Rs. 3/- (entrance fee, Rs. 2/-) only.

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay—1.

## THE BOMBAY PLAN & OTHER ESSAYS

*Second A. D. Shroff Memorial Lectures  
delivered under the auspices of  
FORUM OF FREE ENTERPRISE*



LALVANI PUBLISHING HOUSE  
BOMBAY \* CALCUTTA \* NEW DELHI \* MADRAS

First Published 1968

© of Mr. H. V. R. Iengar's text vests in the Forum of Free Enterprise, and of other texts with respective authors.

Price : Rs. 4

PRINTED BY S. R. SAWANT AT ASHOK PRINTING PRESS, KHETWADI MAIN ROAD, BOMBAY 4, AND PUBLISHED BY S. P. LALVANI, LALVANI PUBLISHING HOUSE, 210, Dr. D. N. ROAD, BOMBAY 1.

## C O N T E N T S

Contributors	v
Introduction	xi
A LOOK AT THE BOMBAY PLAN IN THE LIGHT OF TODAY <i>H. V. R. Iengsr</i>	1
GHERAOS <i>V. B. Karnik</i>	18
BENEVOLENCE IN BUSINESS <i>Dr. B. C. Ishwardas</i>	32
CENTRE-STATE FINANCIAL RELATIONS IN INDIA <i>Sudhanshu Kumar Basu</i>	38
A NEW CONCEPT OF CAPITALISM <i>M. V. Arunachalam</i>	54
THE PUBLIC SECTOR: IS IT A MIRAGE ? <i>A. K. Chanda</i>	70

## CONTRIBUTORS

H. V. R. Iengar, I.C.S. (**Retd.**)—A former Governor of the Reserve Bank of India, a distinguished civil servant; at present associated with business and industry as chairman of several leading firms.

V. B. **Karnik**—A veteran trade union leader, a close associate of the late Mr. M. N. Roy, and author of several books on trade unionism and other subjects.

Dr. B. C. **Ishwardas**—Formerly in the diplomatic service; presently Director of the Academy of International Culture at Bangalore.

**Sudhanshu Kumar** Basu—Distinguished journalist. Editor of "Hindustan Standard" of Calcutta, one of India's important English dailies.

M. V. Arunachalam—A well-known industrialist of Madras who is very active in public life.

A. K. Chanda—A former Comptroller and Auditor-General of India and distinguished civil servant.

## A. D. SHROFF

### Champion of Free Enterprise



MR. A. D. SHROFF was a champion of free enterprise and a great leader of business and industry, and an economist whose predictions have proved right over the years.

He was associated with promotion of planning in the country even before Independence. When Netaji Subash Chandra Bose was the President of the Indian National Congress, in 1938 he appointed a National Planning Committee, with Pandit Jawaharlal Nehru as the Chairman. Mr. Shroff was one of the members of the Committee.

After graduating from Sydenham College in Bombay and the London School of Economics, Mr. Shroff started as an apprentice at the Chase Bank in London. On return to India, he joined a well-known firm of share brokers and was also teaching advanced banking at the Sydenham College of Commerce and Economics. For over forty years, he was associated with a number of industrial and commercial enterprises, many of which owe their origin and development to him. He was a Director of leading concerns like **Tatas**, and his range of interests covered insurance, radio, investment, shipping, banking, and a number of other industries.

He was one of the eight authors of the well-known **Bombay Plan** presented to the country by private enterprise in 1944. He was also an unofficial delegate at the Bretton Woods Conference in 1944 which set up the World Bank and the International Monetary Fund.

He served on a number of committees including the well-known Shroff Committee on Finance for the Private Sector set up by the Reserve Bank of India.

In 1956, he started the Forum of Free Enterprise which has stimulated public thinking in the country on free enterprise and its close relationship with the democratic way of life. It is a tribute to Mr. Shroff's vision, courage and leadership that in spite of many adversities, the Forum of Free Enterprise has established itself as a national institution within a short time.

## INTRODUCTION

IT IS now acknowledged that great credit is due to the late Mr. A. D. Shroff for his pioneering work in taking economics to ordinary citizens who were normally not conversant with the intricacies of the subject although it affects their day-to-day living. By arranging through the Forum of Free Enterprise numerous public lectures and publishing booklets on current economic problems, Mr. Shroff pioneered, in post-Independence India, constructive thinking on economic problems.

It is, therefore, appropriate that his memory should be perpetuated and honoured through the holding of the A. D. Shroff Memorial Lectures on his death anniversary, on October 27 every year. The first lectures, delivered on October 27, 1966, were published in the form of a book, FEDERAL FINANCIAL RELATIONS AND OTHER ESSAYS by Lalvani Publishing House, which was well received by the general public.

The Forum of Free Enterprise was fortunate in getting again eminent public men to deliver the Second A. D. Shroff Memorial Lectures on October 27, 1967. The main lecture in Bombay was delivered by Mr. H. V. R. Iengar, I.C.S. (Retd.) a former Governor of the Reserve Bank of India, on "BOMBAY PLAN IN THE LIGHT OF TODAY". It was an appropriate subject both in view of its topicality and the fact that the late Mr. Shroff himself was one of the authors of the Bombay Plan. The lectures at other centres were delivered by Mr. A. K. Chanda, former Comptroller and

Auditor-General of India, Mr. Sudhansbu Kumar Basu, eminent journalist and Editor of "Hindustan Standard", Mr. M. Arunachalam, industrialist of Madras, Mr. v. B. Karnik, veteran trade union leader, and Dr. B. C. Ishwardas, formerly in the foreign service.

These lectures have been brought together in this book to make them available to the general reading public. Messrs. Lalvani Publishing House are to be congratulated on publishing the book.

235, Dr. D. N. Road,  
Bombay 1.  
23rd September 1968

MURARJI J. VAIDYA,  
President,  
Forum of Free Enterprise.

## A LOOK AT THE BOMBAY PLAN IN THE LIGHT OF TODAY\*

H. V. R. IENGAR, I.C.S. (Retd.)

WHEN I was in Government service it was, of course, mercifully out of the question for me to write or speak publicly on Government's policies and, indeed, I can recall only one occasion on which I made a public utterance; and that was in justification of a decision of Government which had little controversial significance. When, after resigning from the Indian Civil Service, I joined the Reserve Bank of India as Governor, I naturally had a greater freedom of speech. The practice of the previous Governors was not to speak on controversial economic policies and, in particular, not to speak on controversies between Government and the Bank. I myself went somewhat beyond this and regarded it as my duty both to try and educate public opinion with regard to the Bank's policies and also, from time to time, to issue public warnings about the effect on the value of the Indian currency of what I thought were the mistaken fiscal policies of Government. In this I was greatly assisted by the attitude of the then Finance Minister of the Government of India. It happened that I had made a statement, entirely

\* The main lecture delivered in Bombay.



— my own responsibility, at an International Industrial Conference in San Francisco, and this was criticised by a member of the Lok Sabha as being contrary to Government's policy. The Minister in his reply refused to go into the merits of my statements; he took the line that I had every right, as Governor of the Reserve Bank, to say exactly what I felt, irrespective of whether it fitted in with Government's views or not. But although this statement gave me considerable room for manoeuvre in my speeches, I deliberately and always spoke in very muted tones. My object was not so much to criticise or embarrass Government as much as to help the Finance Minister who, I knew, was under constant pressure to expand Government's expenditure irrespective of the effect that might have on the inflationary situation. When I left the Reserve Bank and joined private business I thought I had no restrictions on my freedom of speech, any more than any other citizen and that I could say exactly what I liked about Government's economic policies. But I soon realised that this right existed to a large extent only as an academic freedom, for it was heavily circumscribed by the very fact that I was in private business in conditions in which that business was almost every day of the year haunting the corridors of Government for some permit or other.

I remember seeking the advice of a friend of mine who had been in business for many years and was himself a thinker and patriot of a high order. He advised me, so long as I continued to hold the chairmanship of any large group of companies, not to stick my neck out. He said that one of the sad features of our country, at the time he gave me advice, — the great deal of intolerance on the part of Government towards views that did not conform to their policy. On one occasion he had delivered a speech to the shareholders of his Company in which he had commented somewhat adversely

## BOMBAY PLAN IN THE LIGHT OF TODAY

on the policy of Government. He was summoned by the Minister and kept waiting in the ante-room for over three hours. It was not that the Minister was busy at a conference or had any other similar excuse; he deliberately made the visitor wait as a mark of his displeasure. It is neither here nor there that the Minister in question had been guilty of gross discourtesy to an eminent citizen of the country whose sole crime was that he had been forthright in his criticism of Government's policy. 'We are dealing,' said my friend, 'with small-minded men. They do not like criticism. And they will take it out on you in all sorts of ways'. I found it difficult to accept his advice in toto and, from time to time during the last 5½ years, I have both spoken and written in a vein which has sounded critical of Government. But I confess I have been pretty careful. I have deliberately chosen moderation and under-statement not merely because I think I am temperamentally so made, but also, I confess, because I did not want to irritate Ministers of Government and thereby jeopardise the success of applications which had been made to Government by companies of which I was the Chairman.

The difficulty which I have pointed out in my own case has been felt by much more eminent men in the field of business. I remember that a couple of years ago Mr. J.R.D. Tata who bears that name most illustriously spoke at a meeting of the Industries Advisory Council on the economic situation facing the country. There had been no doubt or controversy about the facts of the situation. These, in fact, had been admitted by Government's own economic survey placed before Parliament. Mr. Tata said, in effect, that the fourth five-year plan should be postponed for a couple of years and that, in the meanwhile, the country should complete and tidy up the projects taken up during the third five-year plan. The newspapers described his

suggestion as a plan 'holiday'. I know that he was criticised by Government and that some individual Ministers, in private conversation, savagely attacked him as being defeatist and almost unpatriotic. Actually, his advice was eminently sound and the logic of events has in fact forced Government to adopt it. Although a year and a half have elapsed since the third five-year plan formally ran its course, we have no fourth five-year plan. Mr Tata too, I imagine, has had to decide where exactly is the line dividing his duties as Chairman of the vast companies in the Tata complex and his duties as a citizen. That he has performed this task very well is a tribute to his judgement and patriotism. But I know that many others have failed in this difficult task because they have had to subordinate their duties as citizens to what they conceive to be their overriding interest as seekers of permits from Government.

It is against this background that one has to judge the particular phase of A.D. Shroff's character, viz., fearless criticism of Government policies. He had never any doubt as to where his duties lay. Where he thought that Government's economic policies were wrong, he criticised them fearlessly. Indeed, he set up the Forum of Free Enterprise precisely for the purpose of having a forum in which people could join who agreed with his basic economic doctrines and could expound them through speeches and writings month after month and year after year in the hope that public opinion could be stirred and perhaps the mind of Government possibly opened to reason. I have no idea whether the companies which A.D. Shroff managed suffered as a consequence, but I know for a fact that he was bitterly criticised in Government circles. The tragedy was that very few people had read what he wrote and spoke. An image was created of an economist and businessman who was rigid and grounded in the doctrinaire, *laissez faire* philosophy of the early nine-

teenth century. Whenever A.D. Shroff's name was mentioned in Government circles it was immediately assumed, without people having gone through his speeches and writings, that he was an expositor of the doctrine of free enterprise in its extreme form, a doctrine which could possibly have no place whatsoever in India and indeed was beginning to have no place even in the western world. I believe the last few years of A.D. Shroff's life were embittered for him by this continuous misunderstanding in high circles of what he was attempting to say. But this did not discourage him. He went on to the end continuing to say pointedly and eloquently what he believed to be errors in Government's policies and administration and what he believed were the necessary corrections to those policies.

One of the reasons for the growing intolerance of the Congress regime towards criticism of its policies was the fact that it became monolithic as an organ of the State wielding power both in the Centre and in the States. It is interesting to speculate as to whether the changes that have taken place in the composition of governments since the last election have resulted, or are likely to result, in the reduction of the fear complex that has plagued the business community and thus help them to a posture of complete frankness. The position is by no means clear or uniform. Certainly it would be wholly contrary to the doctrines or practice of the Communist parties which are sharing power in certain States to be tolerant to criticism; for intolerance is their very lifeblood.

I have used the opportunity of having to prepare this talk to go through a document which, at the time of its original publication, created a tremendous amount of interest but which has now been almost totally forgotten. This is a plan of economic development for India prepared in 1944 by a group of eminent businessmen, of whom A. D. Shroff was one, generally called in those days the Bombay plan.

underlying philosophy is concerned, I cannot see any difference between what the authors of the Bombay plan had in mind and what has been propounded in the succession of plan documents by the Planning Commission of the Government of India.

Indeed, the resemblance goes much deeper than basic concepts. In the very introduction to Part II of the plan the authors recognised that the existing economic **organisation** based on private enterprise and ownership had failed to bring about the satisfactory distribution of the **national** income. They, therefore, proposed that the foundations of economic policy must be based on free enterprise which is truly enterprising and not a mere cloak for sluggish acquisitiveness and, at the same time, that such enterprise must **ensure** that the fruits of enterprise and labour are fairly apportioned among all who contribute to them and not unjustly withheld by a few from the many. For securing an equitable distribution of income they considered it necessary **gradually** to reduce inequalities of property and decentralisation of ownership of the means of production. At the same time, subject to the provision of a basic minimum standard of living, they felt it desirable to leave enough scope for variations in income according to ability and productivity. Side by side with decentralisation of production they felt that control, ownership of management of public utilities or basic industries by the State was necessary to further the reduction of gross inequalities and they felt it appropriate that profits should be kept within limits through fixation of prices, restriction of dividends, taxation, etc. They were not in favour of **a** basic minimum wage throughout the economy **as** this **was** considered impracticable for the time being, but they thought a beginning **may** be made in well-established industries such as cotton textiles, sugar, engineering, jute, **mining, etc.** They were in favour of the policy of fixing minimum prices

for agricultural commodities. They thought that a suitable graduated income-tax which would keep personal income within limits would be an important weapon in the **fiscal armoury** of the country. Finally, they felt that no economic development of the kind proposed by them would be feasible except on the basis of a central directing authority and that, in the initial stages of the plan, rigorous measures of State control would be **required** to prevent inequitable distribution of the financial burdens involved in it. It was in fact an essential part of their plan that there should be a degree of State **control** over industry, the forms of control including the **fixing** of prices, limitation of dividends, prescription of conditions of work and wages for labour, the nomination of Government directors on the Board of management, licensing and 'efficiency' auditing. They devoted some thought to the question of whether it was possible to harmonise a democratic system of society with centralised planning and came to the conclusion that that was indeed possible.

In the matter of resources of planned development the **first** three plans of the Government accepted the need for controlled deficit financing. It is interesting to observe that this concept of creating money for the purpose of mobilising men **and** material and stimulating production that would not have otherwise been possible— a concept which had the blessing of a technical mission of the International Monetary Fund — was thought of and approved by the authors of the Bombay plan. Out of a total expenditure of **Rs. 10,000** crores, as much as **Rs. 3,400** crores was to be created money. This is actually a higher proportion than was resorted to **by** the Government of India during the first three plan periods. **It** is clear that the authors of the Bombay plan were inspired **by high** ideals and were prepared to run daring monetary risks for the purpose of creating a new social and economic order.

You may wonder whether the recital I have just made is a summary of the basic plan concepts of the Congress Government in the 'fifties and 'sixties or a statement setting out the beliefs of a group of hard-headed businessmen nearly a quarter of a century ago. It is all there in the Bombay plan — the concept of massive State intervention in the economy, of a mixed private and public sector enterprise, the emphasis on heavy industry, the need for foreign capital and the need for deficit financing. Indeed, there seems little difference between the basic approach of the Bombay plan and the approach of the Planning Commission of the Government of India and it would by no means be far-fetched to say that the Planning Commission actually got its inspiration from the Bombay plan. And the interesting point is that A.D. Shroff accepted this approach in 1944 and was, indeed, one of its principal proponents. It is my task in the next part of this talk to examine whether there is any basic difference between the approach which he thought was appropriate in 1944 and the approach that he subsequently adopted in his Forum of Free Enterprise and in his speeches and writings in the last years of his life.

The basic doctrine of the Forum of Free Enterprise is set in its Manifesto. In order to do justice to it, I reproduce the relevant extracts:

“FREE ENTERPRISE NOT ‘LAISSEZ FAIRE’”

“We consider that ‘Laissez Faire’, or Nineteenth Century Capitalism, has no place in contemporary Indian life. These systems, whatever their usefulness might have been, have outlived it. Today they are as dead as the dodo and can make no contribution to the industrial, social and economic advancement we seek. Equally do we hold that the Marxist approach to socialism through State ownership of the means

of production is outmoded in time and thoroughly discredited in practice.

“Capitalism of today, or as we prefer to call it ‘Free Enterprise’, operating within a planned economy, is the most alive and the most vigorous economic system in the world. Its motive power is rooted in the fulfilment of the individual, controlled and bounded always by the values and principles of the society in which he lives. Thus, Free Enterprise contributes to the moral and material betterment of society by the voluntarily harnessed efforts of the people which compose it. From this must spring a happier and a richer life for all. Reverse the process by introducing authoritarian planning, which places the State above the individual, and the result will inevitably be confusion, frustration and the loss of liberties.

“THE SOCIALIST PATTERN OF SOCIETY”

“As far as we know, this phrase has not yet been defined in specific terms. The Forum unreservedly accepts the concept of a fuller and better life for all, equality of opportunity, eradication of unjust privilege; in fine, the establishment of Welfare State. Indeed we hold that these objectives will be attained more rapidly, more effectively, and with a greater degree of enthusiastic co-operation of the people, through Free Enterprise, than through any other system. Inherent in our acceptance of these social aims is also that of a planned economy, and the common existence of mutual inter-dependence of a State controlled and Free Enterprise Sector. What we do not accept is the theory that this State-Owned sector should continuously expand until it dominates the national economy, for then, as night follows day, will there be a regimentation of life, totally at variance with India's outlook and traditions, which have

always recognised the place and worth of the individual in society."

\* \* \*

"For the reasons which we have given, we claim that socially responsible private initiative, or Free Enterprise as we term it, is the most dynamic and effective system available to attain the moral and material ends which all of us so ardently hope for."

What is the difference between what is set out in this Manifesto and what was expounded in the Bombay plan or the Government of India plan? As far as I can see, the Forum accepts the need for a plan, accepts the need for urgently pressing forward with schemes of economic development, accepts the need for reducing inequality and ensuring social justice, and accepts the need for a measure of control over industry. I believe the difference lies in two things: (i) the emphasis on the greatest possible scope for private enterprise as opposed to Government's concept of a vastly and rapidly expanding public sector and (ii) the necessity for reducing the scope of controls to the very minimum so that free enterprise may operate to the maximum possible extent under the conditions of a market economy.

Put in this form, it would appear that the difference is just one of degree. But I fear that, that would be an over-simplification. There do seem substantial differences in outlook between A.D. Shroff as a co-author of the Bombay plan and A.D. Shroff who started the Forum of Free Enterprise. It is difficult to ignore the clear, categorical acceptance by the Bombay plan of the need for State ownership of basic industries, limitations of profits by price fixation, and restriction of dividends and 'rigorous' measures of State control (the word rigorous is used by the authors

of the Bombay plan), and the views of the Forum. This would be particularly clear if one read the speeches of A.D. Shroff. I would refer only to one speech in this context, the one entitled, 'Controls in a Planned Economy' delivered by him in Bombay on the 1st September, 1960. This lecture gives the impression that practically every control is bad—control on the licensing of industry, control over capital issues, even foreign exchange control. While thus, in theory, the need for some controls is accepted, every form of actual control exercised by Government is subject to vigorous and sarcastic ridicule. There is all the difference in the world between the concept of 'rigorous' controls as advocated by the Bombay plan and the pale, anaemic and almost shadowy form of control that was all that A.D. Shroff seemed prepared to accept in his later years. What is the reason for this change from the high noon of the Bombay plan to the wintry despair of 1960 in this all-important matter of State intervention in the country's economy?

The authors of the Bombay plan made two basic assumptions regarding the formulation and execution of the plan. The first was that there would be Government in India, particularly at the federal level, which would not merely establish rapport with the people, but rouse their enthusiasm for plans for economic development. The second assumption was that the machinery for working out plans and for giving effect to them, in particular the machinery for the operation of controls and for the execution of public sector projects, would be efficient and progressive. All this is nowhere spelt out in specific terms in the plan document, but it is implicit in all that they said.

I believe that at that time the authors of the plan felt justified in making these assumptions. The year in which the plan was published, namely 1944, was the year in which the leaders of the freedom movement were most of them

still languishing in prison and had a tremendous hold on the affections of the people. They were the leaders, in fact, of the independence revolution, and there was attached to their names a halo and authority born out of admiration, amongst the mass of people, for a life of sacrifice and dedication to a cause. It has time and again been the case in history that people who have headed a revolution have, during the height of the revolution, been regarded as people who could continue to deliver the goods once the revolution was over and the humdrum task was taken up of administrative change. History has showed again and again that such an assumption has not in practice proved correct. This experience of history in other countries has proved true of India as well. We started off in high spirits in 1947 but, during the last twenty years, great disillusionment has descended on the people because either the leaders of the revolution who had it in them to hold the country together and arouse mass enthusiasm are dead, or the giants have shown that they have had feet of clay.

I do not desire to labour the point for this is not a political treatise and, in any case, the facts of the situation are fairly well-known. All that I need say at this stage is that the functioning of Governments since 1947 has been progressively disappointing, speaking of India as a whole. It would be uncharitable to pretend that the task has not been colossal. But the handling of that task has been marred by a tendency on the part of Government to be doctrinaire, by a lack of realism, by a want of administrative flair and, above all, by a feeling of permanence in office arising out of repeated success at the polls by a monolithic party. With notable exceptions, there has also been slackness in political standards. The attitude to industry, instead of being one of co-operation in a common endeavour, has been vitiated by excessive pre-occupation with the sector, of whose existence there is, un-

fortunately, little doubt — which is anti-social and unpatriotic. Government has persistently ignored the fact that this sector represents only a minority and that the bulk of industrialists are anxious to do a decent job of work and that there could subsequently be no antithesis between them and Government. The continuous exercise of power has also led to a dangerous attenuation of relationship — except at election time — with the mass of people. The result has been that, instead of the people enthusiastically responding to a call for hard work and sacrifice in the interest of building a strong India, there is sullenness and cynicism.

To the extent that the hold of a monolithic party has been loosened, the change is all to the good. But, in some States, power has gone into the hands of certain groups which have no heart in constitutional means of progress and seem intent on encouraging violence and disorder. In the process, the administrative services are getting disorganised and losing their morale as a cohesive force for stability.

In the operation of controls too there has been great woodenness and rigidity and a tendency to proliferation in a wholly unrealistic manner. Red tape has become progressively worse and has led to frustration and a sense of despair. Although individual members of the bureaucracy have displayed high character and ability, as a machine the bureaucracy has not proved equal to the task.

In other words, the two assumptions, namely massive support to Government by the people and efficiency in the functioning of the bureaucracy have, by and large, not in practice been realised.

Another way of putting this point would be this: The authors of the Bombay plan and of the Government of India plans assumed ideal conditions of human reaction to problems of economic development — keenness, efficiency, a desire for sacrifice in the common good. In doing so,

they ignored the imperfection of human response arising, in part, out of the frailties of human nature and, in part, from social rigidities born out of historical causes. It is the realisation of this that made A.D. Shroff and I believe, the other surviving authors of the Bombay plan to alter their attitude so radically.

I have just returned from another trip overseas including Japan. These trips depress me a great deal. The outside world is moving very fast in terms of an increasingly high standard of living for the mass of the population, whereas our own rate of growth is so painfully slow. It is not that I am unaware of the immense problems involved in moving a society such as ours on the path of rapid economic progress. But we could make more rapid progress if we were not ensnaring ourselves in outmoded Fabian dogma which others have given up and if we did not subordinate production to accelerating demands for distribution. The highest priority now must be for increased production at all costs. This means the utilisation of capital and managerial talent to the maximum possible extent and the fullest possible productivity on the part of labour. Neither of those is possible in present conditions.

Looking at the problem as an intellectual exercise, I am convinced that the ideas as set out in the Manifesto of the Forum of Free Enterprise would form the best foundation for economic progress. The question is: To what extent is this view likely to be accepted by those in authority?

We seem to be passing through a transitional stage. In the field of politics there are forces of the Right and forces of the Left, if we may simplify the dichotomy of political ideology by words commonly accepted in popular discussion. There are forces which believe in property rights, in the Rule of Law, in progress through evolution. But there are also forces which believe in expropriation, in the abandonment

of the Rule of Law, and in revolution through chaos. Your guess is as good as mine as to which of these forces will come up on top. From time to time I get dejected at the course that events are taking in our country. But I continue to be an optimist. I am convinced that through all the travail that we have been passing through we will arise as a free democratic society which will give scope to the great deal of entrepreneurial technical talent that our country possesses. It is essential, however, if that optimism is to survive, that people should speak with frankness and courage and the Government should respond with a desire at any rate to understand. And on the leaders of the business community lies a special responsibility. Herein lies the great example of A. D. Shroff.

## GHERAOS \*

V. B. KARNIK

I AM HAPPY to get this opportunity to speak in the A. D. Shroff Memorial Lectures. It gives me the privilege to pay my humble tribute to that eminent economist, an able leader of industry and finance, and above all a man of courage and conviction. The late Mr. Shroff was a great believer in public education. He desired to remove what he characterised as 'economic illiteracy'. There can be no better tribute to him than efforts to spread knowledge about economic problems. It is a fine idea to organise lectures on a variety of economic issues on the day of his death anniversary.

'Gherao' gives rise to problems of law and order but it arises out of a particular state of employer-employee relations. As such, it is an economic problem. Trade and industry all over the country are worried about 'Gherao' because of its harmful effect on production of goods and services and the disincentive that it offers to the growth of established concerns and the development of new ones. Bengal which saw a lot of 'Gherao' in the first few months of the United Front ministry established after the fourth General Election provides a telling illustration of the adverse effects of the phenomenon on the economy of the State.

\* The lecture delivered at Ahmedabad.

The Chief Minister, Mr. Ajoy Mukerji, described them as follows: "In the industrial field there were widespread discontent, disorder, gheraos and sometimes inhuman treatment and physical violence. These had given a serious blow to the growth of industry in West Bengal. Removal of unemployment was one of the main objectives of the UF Government but in practice the steps taken by leaders of the Front and by industrialists had made thousands of employed people unemployed. Bengal once stood first in industry; then it became second, and no one knows to which it will go down if this destructive policy is pursued" (*Times of India*, October 17, 1967). The Chief Minister has referred to many things, but the main factor responsible for the grave economic situation described by him was undoubtedly Gheraos. The former Chief Minister, Mr. P. C. Sen, the leader of the Congress Party in Bengal, was more specific. In the course of his report on the Bengal situation to the Congress Working Committee he stated that "about 80,000 people became jobless on account of 900 instances of Gheraos" (*Times of India*, October 28, 1967).

'Gherao' was not entirely new to Bengal; nor did it make its first appearance in the State after the establishment of U.F. Ministry. Gheraos used to take place occasionally in the State a few days previous to the Puja holidays to press the demand for a Puja bonus. But they used to be trivial affairs lasting never more than a couple of hours. Nobody paid much attention to them as police help was always available whenever the situation took a serious turn. Usually as a result of the little pressure that was exerted, workers received a little bonus and they went away happy without having caused too much inconvenience to employers or their officers. In other States also, the method was resorted to in stray cases without any serious effect on production or on discipline. In those days a Gherao was nothing worse than



a little inconvenience which employers took in their stride and dismissed as a slight nuisance.

The Gherao movement which developed in Bengal under the U.F. Ministry was an entirely different affair. Gheraos then came to be organised according to a plan. They spread from one factory to another. The duration was much longer—extending in some cases to days rather than to a few hours. The treatment meted out to persons Gheraoed was severe and harsh, bordering in some cases on cruelty and inhumanity. In some cases the officers Gheraoed were made to stand in the sun for hours, were denied food and even water, were not allowed to answer calls of nature and were subjected to assaults and indignities. The demands were many and not one, bonus, as used to be the case in previous years. During the six months March to August over 915 Gheraos took place, that is, about five Gheraos a day. The Gheraos began in factories, but later they spread to offices and other establishments and also to schools and colleges and municipalities and local boards. They took place not only to secure economic concessions as in the case of industrial workers but also to throw out persons from their houses and mohallas and to secure resignations of elected persons from the authorities to which they were elected. An evil force had been called out and, all restraints on its movements having been removed, it was playing havoc in factories and offices and in various other types of establishments. Some of the Gheraos were of a ghastly nature. They inflicted tremendous hardships on a large number of supervisory officers and in some cases on employers.

It is not necessary to recount the story of the many Gheraos that took place in Calcutta and other places in Bengal. Newspapers have published many lurid details about them. A typical report published early during the period may be, however, quoted to give an idea of the gravity of the situation

that was created. *The Indian Express* of Bombay carried the following report in its issue dated 20th March, 1967: "Labour trouble is no novelty to West Bengal. But what is causing great anxiety to the industry, management, labour and other staff is the increasing violence in and around Calcutta. In the last two weeks, over a score of factories in Greater Calcutta have witnessed violence. In several cases, managerial and administrative staff were either assaulted and injured or were 'imprisoned' within factory premises for several hours. At least in one instance—and almost in all the cases—managerial staff and administrative officials were besieged for over 80 hours. According to one who 'felt the terror for 80 long hours', even the lives of the 'imprisoned person' were threatened. 'We were left to the mercy of the merciless crowd. We felt like prisoners of war.' The workers staged 'Operation Imprisonment' with the help of unsocial elements and they had full control over the supply of food, lighting arrangement and other essential amenities of the besieged persons. Thanks to the stress recently made by the new Government about police non-interference in labour disputes, the guardians of the law have not been able to play their due role. Fear is fast spreading among all sections of the management and the working of the industrial units is being seriously affected."

Gheraos assumed these alarming proportions because of a new order issued by the Government at the instance of the Labour Minister. According to the order issued on March 27 the police were instructed that they "should not intervene in any legitimate trade union movement. If any intervention has to be undertaken, the matter should first be referred to the Labour Minister and his decision obtained." The police were thus rendered immobile. They could not intervene even when their help was sought to prevent the commission of crimes or to apprehend persons

who had committed them. On several occasions instances of Gheraos were brought to their notice but because of the order they could not take any steps to rescue the persons Gheraoed or to ask workers to lift the Gherao. The order was challenged in courts of law. As it was found to be defective it was cancelled and a slightly modified order was issued in June. The modification did not, however, effect any change in the attitude that the police had been asked to adopt.

It is not possible to assess in exact terms the loss that Gheraos inflicted on the economy of the State. In the middle of June, Mr. I. M. Thaper, the President of the Indian Chamber of Commerce, assessed the loss of industrial production at Rs. 20 crores. According to him the loss of man-hours was well over three million and the loss of revenue to the Government was of the order of Rs. 5 crores (*Times of India*, June 16). A loss of a more far-reaching character is the abandonment by industrialists of their plans to develop new industries and to expand old ones which took place on a fairly large scale owing to the conditions of insecurity that had been created. There was also the flight of managerial and technical personnel. They were the worst sufferers of the Gherao~.

From Bengal Gheraos spread to other parts of the country. They spread particularly to the adjoining State of Bihar. They did not, however, receive much encouragement from the established authorities and did not consequently assume the menacing shape that they did in the State of their origin.

There was a good deal of discussion in the beginning about the legality or otherwise of Gheraos. One view that was canvassed was that as there was no violence and no breach of peace, a Gherao did not overstep the bounds of law and

was a perfectly legitimate activity of workers. Another view pointed out that, though no stones were thrown and no heads were broken, a Gherao amounted to wrongful restraint and imprisonment of persons Gheraoed and was, as such unlawful and punishable under the law. The controversy has been recently set at rest by the unanimous judgment of a Full Bench of the Calcutta High Court. The judgment is a weighty pronouncement on the obligations of the police to protect the rights and liberties of citizens and on the powers of courts to ensure that those obligations are properly discharged.

The main judgment of the Full Bench was delivered by the Chief Justice, Mr. D. N. Sinha. The judgment begins by giving a definition of the term 'Gherao'. The definition is as follows: "A Gherao is the physical blockade of a target, either by encirclement or forcible occupation. The target may be a place or a person or persons, usually the managerial or supervisory staff of an industrial establishment. The blockade may be complete or partial." The unlawful character of a Gherao is then discussed and the conclusion is as follows: "If it is accompanied by wrongful restraint or confinement, or accompanied by assault, criminal trespass, mischief to person or property, unlawful assembly and various other criminal offenses, used as a coercive measure to controllers of industry, to force them to submit to the demands of the blockaders, such a Gherao is unconstitutional and violative of the laws of the land." Regarding the liability of workers the judgment states the following: "All workmen, guilty of wrongfully restraining any person belonging to the management, or wrongfully confining him during a Gherao are guilty under Section 339 or 340 IPC and have committed cognizable offences for which they are liable to be arrested without warrant and punishable with imprisonment and fine."

The two orders of the Government are then referred to and it is categorically stated: "The Labour Minister has no power or authority under the law to give directions to the police before taking action, where such an offence has been committed or is said to have been committed. The action that the police or magistrate shall take under such circumstances is provided for in the Criminal Procedure Code and the relative Police Acts. By executive fiat, such procedure cannot be altered or supplemented or varied." Elaborating the position further, the judgment states: "Inaction on the part of the police who are the guardians of law and order is reprehensible. When complaint of the commission of a criminal offence is made it is not open to the police to act or not to act according to their will and arbitrarily. It would be the end of all Constitutional Government if the police were called upon to consider the political affiliation of either the complainant or the accused in a criminal case. The duty of the police is not only to promptly answer to a complaint alleging an offence but it is their duty to prevent the commission of crimes. Where they fail to do so, they will be answerable to the courts and punishable under the law." It is stated further: "Once the laws are made, neither the Governor nor the Cabinet nor the Ministers, nor any subordinate executive authority has the power to add to or detract from its contents, to interfere with its working or to affect any discretionary power given under it unless such power is clearly granted under the Constitution or the laws. Where any such authority purports to exercise such power or does any act in excess of jurisdiction, any person whose legal right is affected may come to the writ court and the writ court will strike it down."

The Chief Justice then examines the question if trade unions enjoy any special privileges under the Indian Trade Unions Act. His conclusion is as follows: "There is no special

procedure that should be adopted when an offence is committed by members of a trade union even in an attempted enforcement of their collective bargaining. The procedure applicable is the ordinary procedure to be adopted in the case of such infraction outside the Trade Unions Act. The executive Government has no power, jurisdiction or authority to add to or detract from such laws or give executive directions that the procedure should consist of any kind of special investigation." Referring to Gheraos organised by trade unions in furtherance of trade disputes, the Court held: "Gherao is not an offence as such. But where it is accompanied by confinement, restraint or other offences, the fact that it is done by members of a trade union and used as an instrument of collective bargaining, gives rise to no special treatment or exemption from liability under the law." The position was further clarified by stating: "Any act of violence, which amounts to the commission of an offence is never excused. An agreement to commit an offence is not exempted by Section 17 of the Trade Unions Act. Neither Section 17 nor 18 of the Act exempts a workman if he commits an offence save and except the limited ground upon which he is exempted from being charged with criminal conspiracy under Section 17 of the Act."

On the issue of the powers of the High Court to issue writs the judgment stated: "Where there is a violation of the fundamental rights guaranteed by the Constitution, the court is bound to grant relief and the existence of an alternative remedy is irrelevant." The role of the judiciary was then defined as follows: "The strength of the judiciary is in the command it has over the hearts and minds of men. The court that raises its head against the mob may be temporarily unpopular, but it soon wins the confidence of the nation. The judiciary is, in a high sense the guardian of the conscience of the people as well as of the law of the land... It is this

public conscience that we have proceeded to exercise in this judgment of ours hoping that it will contribute to the restoration of peace in West Bengal. In the gathering darkness I hope its voice shall be heard and obeyed."

This is, indeed, a memorable judgment, a judgment which will enhance the reputation of the High Court as the custodian of the rights and liberties of the people. It was naturally resented by the proponents of Gheraos. Mr. **Harekrishna Konar**, the Revenue Minister in the **United Front Ministry** of Bengal and a leading light of Left Communists, dismissed it as 'class justice in a class society.' The remark is an apt illustration of the perverted outlook of the Communists who can think only in terms of classes, class struggle and class war.

There can be no doubt that the U.F. Government of Bengal encouraged or condoned the Gheraos. It is to be hoped that after the clear and categorical judgment of the High Court, the Government will not persist in that policy.

The legal question having been settled, it is necessary to find out if a Gherao can be regarded as a legitimate trade union method. Obviously it cannot be legitimate as it is illegal. Trade unions are bodies established according to law and cannot make an illegal activity a normal method of their work. Apart from illegality there are many other factors which disqualify Gheraos as a trade union method. If a Gherao is a spontaneous outburst of anger and resentment, organised trade unions will seek to control and avoid such outbursts as far as possible. No organised trade union work is possible on the basis of such outbursts. An established union has always some well-defined avenues for the representation of its grievances and demands and it is expected to take recourse to them rather than to indulge in undisciplined activity like a Gherao. Established procedures and authorities will be rendered nugatory if immediate relief is sought to be secured through methods like Gheraos.

If there are defects—and it cannot be denied that there are many—in established procedures and authorities they should be rectified. It is desirable to improve the procedures and authorities rather than to throw them overboard through indiscipline and lawlessness.

A Gherao is usually an act of a small group; the large mass of workers is usually not involved in it. A small group poses as a militant champion of workers' interests and tries to secure some concessions for workers through **organising** a Gherao. Concessions, if at all they are secured, are never abiding, as anything granted **through** coercion and intimidation is usually repudiated very soon. In the process **the** group brings into discredit the established trade union organisation and its leaders. Workers' confidence **in** both is shaken and their attention is diverted away from patient, long-term trade union work. They are made to feel that periodic outbursts would give them better results. This cuts at the roots of day-to-day organised trade union activity. Gheraos do not help the growth of unions. **They** undermine and destroy them. Instead of relying on their own organised strength workers are made to rely on the capacity of a few anti-social elements to cause annoyance and hardship to employers and their representatives.

A trade union which desires to secure better terms and conditions of employment for its members cannot take recourse to methods of coercion and intimidation. A strike is a different thing. **By** going on strike workers exercise their right of not working except on proper terms and **conditions** of work. They do not prevent the employer and other members of the management from moving about nor do they commit any physical violence against them. In Gherao not only is work stopped but the **physical** movements of supervisory officers and others are stopped and they are also subjected to much other **harrassment**. This type of treatment

meted out to supervisory officers cannot lead to growth of good relations between workers and management and a union indulging in Gheraos can never hope to settle workers' problems through representations and negotiations. A Gherao union can never be a stable union; it will always remain an *ad hoc* organisation with little claim on the loyalty and confidence of workers.

It is because of this disruptive and destructive character of Gheraos that they have been disapproved and condemned by all sections of the trade union movement except the one represented by Communists and their supporters. The General Secretary of the I.N.T.U.C., Mr. Ramanujam, condemned Gheraos as an 'Indian edition of the Chinese Red Guard movement.' The H.M.S. condemned them as also one part of the U.T.U.C. The communist-controlled A.I.T.U.C. supported them whole-heartedly. More emphatic was the support extended by the Left Communist Party. Writing in its weekly organ, Mr. B. T. Ranadive stated: "The Calcutta Gheraos, undertaken to protest against the most illegal and monstrous offensive of the employers, have been the most peaceful and disciplined demonstrations of the workers—a sit—in strike whose disciplined character must draw the admiration of all honest people considering the fact that it was taking place under the most provocative circumstances imposed by the capitalists. Not that Gherao is a totally new form of struggle. The Calcutta proletariat has made use of this form in the past also. The recent Gherao is an expression of the mass awakening following the electoral defeat of the Congress. At the same time it is perfectly legitimate weapon—a trade union weapon—of protest and action. A weapon of disciplined protest is being slandered by capitalists and their henchmen. This is nothing new. In the capitalist vocabulary strike is violence; and now Gherao is 'wrongful restraint' (People's Democracy, May 21).

Communist support to Gheraos was politically motivated. Left Communists organised them in Bengal mainly with the object of strengthening their position in the trade union movement in the State and of driving other groups out of it. They desired to establish their monopoly over the trade union movement as a step towards establishing their monopoly over the entire social and political life of the State. In this they appear to have succeeded to a large extent. As a result of Gheraos and similar other tactics a number of unions have changed hands, Left Communists replacing leaders belonging to other groups, and a number of unions have been rendered ineffective, workers having been persuaded or coerced into leaving them. If Gheraos had been allowed to continue unabated, the most probable effect would have been the complete elimination of democratic trade unionists from the trade union movement of the state.

Gheraos declined in numbers as well as in intensity after the first part of July. They declined because of the popular outcry against them in the State as well as in the rest of the country. Public opinion all over India was outraged by ugly stories about Gheraos that appeared from day to day in the press. The Government of India felt compelled to take notice of them. The Union Labour Minister deplored them and said that 'they were not a legitimate weapon to solve labour disputes.' (*Times of India*, May 17, 1967.) The Union Home Minister said that Gheraos amounted to wrongful confinement and criminal trespass. He is reported to have remarked "From Ghera dalo and tala toro it could lead to Gala Kato" (Statesman, June 1, 1967.) The Union Minister for Steel, Mines and Metal was equally emphatic. He said: "Gheraos are invitations to lawlessness and anarchy and there is such a thin line between Gherao and violence that it is difficult to

say where one begins and the other ends. The sooner we realise this fact, the better for us. Otherwise not **only** our industrial production will go down but also the **civilised** methods of negotiations will give way to chaos" (*Hindustan Times*, May 17, 1967). There were also some writ petitions and prohibitory notices and orders for the release of detained persons from courts.

All this had its effect upon the Bengal Government and it could no longer be as carefree and as open as it once **had** been in its support to Gheraos. Moreover workers had **lost** their enthusiasm for them. After their experience of three months or so, workers realised that Gheraos brought them little relief. The Gheraos, they found, were not able to stop retrenchments and lay-offs, nor were they able to compel employers to pay more attention to awards and decrees. After August Gheraos ceased to be a problem nor did they break out again, as apprehended, on the eve of the **Puja** holidays. This is a welcome development, but it **should** lull nobody into a false sense of security and **confidence**.

Gheraos grew out of a certain state of industrial relations in Bengal. There was, no doubt, a compelling economic urge, the urge to seek protection against the imminent danger of retrenchment and lay-off. Owing to economic recession a number of engineering concerns in the State were compelled to effect retrenchment and lay-off. There was also the problem of non-implementation of court awards and decisions. All this gave rise to a feeling of insecurity and of anger and resentment. **In** the absence of representative unions and effective avenues for representation of grievances the feeling got bottled up and could be **then** easily exploited by communist agitators. Employers **are** **mainly** responsible for the absence of stable, mass **unions** and for the lack of communication **between** workers and management. In their relations with their employees they

appear to be many decades behind their counterparts in **Maharashtra**, Gujarat or Madras. Workers receive not **only** less wages but also less humane treatment. **As** long as industrial relations continue in this deplorable state, the danger of Gheraos cannot be said to have disappeared. **A Gherao** is a desperate remedy. Workers take recourse to it when they are driven into a **desperate** position and **lack** effective instruments for ventilating their grievances and securing their redress. **Unless** such instruments are **created** through the growth of stable representative unions Gheraos may reappear again as soon as the political climate becomes more **favourable** to them.

**Gherao** is a danger not **only** to healthy labour-management relations but **also** to the democratic social order which is being evolved in the country. In a democracy issues should be decided through discussion. There should be a continuous, intelligent dialogue between various points of view and **conflicting interests** so that a consensus may emerge. **A Gherao** renders it impossible as it replaces reasoned argument by coercion and **intimidation**.

## BENEVOLENCE IN BUSINESS \*

B. C. ISHWARDAS

I AM USING the word in the sense of desire to do good, charitable feelings towards those associated with you in your businesses. The aim of your Forum is "education of public opinion on free enterprise and how free enterprise and democratic way of life are related". In other words you subscribe to the maxim, drawn from experience of course, that capitalistic system within the framework of democracy is a sound doctrine and communistic economy is not the answer. Laudable indeed is this goal and its success is impeachable.

Prospectively communism is a failure. Karl Marx's prediction that capitalism would collapse because of its contradictions, has not proved true. Khrushchev had accepted capitalism as a 'well-established' system. Not one, of the nearly fifty newly formed nations since world war two, has chosen communism as way of life or system of Government. 'Wars of liberation' through propaganda or aggression, have blown down no Government. Economics of Marx is being unlearned, for it has borne little fruit. Soviet satellites in Eastern Europe are reaching out for trade rela-

tions with Western Europe. There is strong possibility of belligerency between Moscow and Peking. It is not communism but the imagination, the energies and the determination of a few undiscouraged leaders of free countries like Nehru, Roosevelt, Mahatma Gandhi, Kennedy and Attlee which have been changing the world. Then there is growing disruption amongst communist leaders. Nations are growingly being drawn into the orbit of democratic system where "man's unsatisfied aspirations for economic progress and social justice are actually being achieved by free men working within the frame work of democratic institutions."

The Indian scene presents an extremely dismal picture. Whether it is economic affairs, external relations or public administration, each sphere of national activity is in a flux. The moral bankruptcy of our politicians has made us helpless. Our moral standards and values have fallen far below civilised norms. Problems like student outbursts, Nagaland settlement, Kashmir instability, food, population explosion, inter-state boundary disputes seem insoluble. Political stability in states is crumbling, while centre's control is weakening. National debts are mounting while resources are dwindling. Central leadership is playing up irrelevant issues to cover up their failures. Communism and communalism are rampant. In short, power lust, opportunism, corruption, and apathy are ruling the roost in India today. This is a, frightening but challenging situation, for these breaking-point, situations give birth to true leadership and desired deliverance. Those who are responsible for India's political instability, economic recession, administrative inefficiency, her humiliation and degradation abroad, it is from them that India has to be saved. What must be realised by all of us is that the India, of Gandhi and India of Nehru had its own problems and challenges. But their problems are not our problems and their age is not our age. "Our generation has to disenthrall

\* Delivered at Bangalore

itself from an inheritance of stereotypes and move on from reassuring repetition of stale phrases, to new, difficult but **essential** reality." This is the situation which has to be faced and dealt with.

Business has, in the past, done a great deal in eliminating **classical poverty**. It is neither the bulldozed equality of **communism** nor the harangues of the parsons from pulpits which accomplished this. A large field of influence for public good remains within the province of business. You, as free enterprise leaders know this and I am sure realise your responsibility, for there can be no freedom without responsibility. It is the marriage of freedom and responsibility which accepts the freedom of competitive economic system on the one hand and the responsibility of turning its strength to the service of common good, on the other. And believe me if I say that you can do this and prosper at the same time. You have the freedom of self-determination, the freedom to pursue your own ends in whatever honest way you see fit. But this freedom impinges on You an obligation, a duty, almost an indebtedness, to go all-out to play a major role in the country's economic, social and political regeneration. The only channel through which you can work effectively, is the Government, for today it is the most powerful and pervasive institution in our society. You can accomplish mighty little from a peripheral position, for service functions of the Government are of prime importance to the business life of the country. Government's taxation laws, its economic policies, import-export regulations, its controls, restrictions and prohibitions, affect your businesses intimately and at all levels. Therefore as businessmen, you must involve yourself actively in the political life of this hapless country. The intelligentsia, of which you are a sizable part, has been a silent spectator of this tragic economic and political drama, till today we have reached this slump in everything. 'Rearguard actions',

through your Chamber of Commerce or other agencies, will accomplish little. Instead, join the fray, closely identifying yourself in public mind as deeply interested in and working for the common good. Here I especially approach the younger amongst you, who I feel, have the better feel for this. Give your experience, strength and special skills to political affairs of this weary and tired nation. The modern businessman in India today has to be an entrepreneur, inventor, discoverer, organiser, dealer and diplomat all at the same time. See how closely you touch all phases of the society. Get in and work out your own economic health.

Yes, join politics, but in the process do not become politicians. Politics is respectable, exciting and attractive and is a door, opening vistas of common good.

When taking on your shoulder this burden of responsibility, I would request you to be mindful of the age-old Indian business traditions. I do not mean to say that the Indian businessman alone thinks of the good, the beautiful and the pure and not so the European or American businessman, but what I mean is this: In your background you have combined precept with experience and you have had faith in peace and order. As products of closely knit-together joint family units, you have learnt to be considerate, to share your good things and to use your talent for the service of others and for collective good. Expand these moral excellences into your business units, for to us Indians the consciousness of the ethical is perpetual. We have all along the line distrusted the material standards and have had faith in moral vigour and selflessness. Out of this experience was born a living conviction that 'man does not live by bread alone'. This tradition will give you stability, strength, vitality and above all, a sense of proportions, which some, who get rich quick, lose sight of. As true sons of India you have to uphold these virtues and values in your businesses, for "of those whom



much is given, much is required."

In business you unremittently deal with materials like raw and finished, processed and non-processed, fine and crude, etc. but please forget not, that the most significant of all is the 'human material'. Man is greater than money, machine, profit, dividend or expertise. Let me go back a bit in order to better draw you closer to my viewpoint. In recent past, when principles ruling capitalistic activity were governed by three central ideas, i.e., of earning and acquisition, individualism and competition and rationalism, capitalistic economy became free, private, aristocratic, specialised, market-oriented, profit-productive and through this process, became abstract and impersonal and the saddest part was that the men employed, got so associated to the collective work, that they became nails, screws and wheels in that artificial system and lost their inborn sense of human dignity. This has to be guarded against. The tendency towards concentration made the factories and the work-laces ever bigger and bigger and with ever growing thoroughness of 'scientific management' the living human beings became mere 'hands'. Ford said, "for patriarchal relations there is no room in industry;" "till now, personality had the first place, henceforth the organisation and system will occupy it."

I am sure the businessman in this developing country does not subscribe to such attitudes and tendencies. Business has to encourage and offer individual employee, opportunities to develop. You are fathers and trustees of your business family—stewards who would set up organisations within your businesses which will jealously watch with a benevolent eye the progress of the individual and see that he moves ahead, his hopes and aspirations are realised and his stability, self-confidence, breadth of interests, range of aptitudes—indeed gifts of rare variety—are amply rewarded. When your associate sees that his worth is recognised as a partner in the

great undertaking, he spontaneously, will fully realise his responsibilities and duties. At the same time soundness and integrity—two pillars on which every business rests and thrives—must form the woof and warp of its weave not only for the bosses but for all members of these sprawling units. Be true to your specifications. Let your promises, agreements and contracts be fully honoured. This applies to all—industrialist, trader, planner, labourer and contractor.

In conclusion, may I submit that "that business will survive and prosper, which does not depend on Government edict, or the decision of a cartel, but on the play of competitive forces". The free enterprise in a democratic framework has given you a system which combines a high degree of inventiveness, a remarkable responsiveness to public needs and great productivity. Carry on this noble task for the good of the nation, for that was the vision your illustrious founder had when he founded this Forum and it is with a sense of deep gratitude and indebtedness that we recall his memory today—a memory which enjoins on us rededication to the cause which was so dear to his heart.

## CENTRE-STATE FINANCIAL RELATIONS IN INDIA

SUDHANSHU KUMAR BASU

IN A FEDERAL CONSTITUTION, financial devolution is as imperative as functional devolution. The latter is intended to promote the smooth working of the Constitution by demarcating as clearly as possible the respective spheres of activity of the federal centre and the federating units described variously as States, provinces and cantons. This is intended to eliminate conflicts over jurisdiction which if they be permitted to grow may erode the very foundations of the federal structure eventually causing a total collapse. It also acts as a check on inter-State squabbles which also pose a potential threat to the stability of a federation. The goal of achieving unity in diversity can be reached if only through a judicious distribution of functions, harmonious, all-round growth is assured.

Distribution of functions, it is obvious, is not enough. It must be accompanied by distribution of resources. No government can function if it does not possess adequate resources to perform the tasks it is called upon to do. In a unitary government, it is simply a problem of raising resources,

---

\* At Calcutta.

in a federal government there is the additional problem of allocation of resources between the federal centre and the federating units. Even where the resources of the federation as a whole taking the federal centre and the federating units together—are adequate, complications arise in regard to the sharing of their total resources by the Centre and the constituent units. Neither can discharge its obligations properly and satisfactorily if the resources at its disposal fall short of requirements. An unequal distribution of resources will not only lead to friction between the Centre and the units, it will entail wasteful application of financial resources.

The ideal system of federal finance would be one in which such a delicate balance is struck that both the federal centre and the federating units have sufficient resources to perform their allotted tasks as outlined in the Constitution. That would fulfil the dictum that it is as necessary that the State Governments should be able to command the means of supplying their wants, as that the national government should possess the like faculty in respect to the works of the Union. If such an arrangement making for an exact correspondence between functions and finances can be evolved the Centre will be at peace with the units. The latter will be fully autonomous and in no way subordinate to the former. The Centre will also have no occasion to interfere with the activity of the units save in a national emergency such as external aggression, the breakdown of the constitutional machinery or a grave internal upheaval.

Financially also each will be completely independent of the other. Financial problems of individual units will not worry the federal centre — they will not be taken to the Centre at all but will be tackled by the States themselves as best as they can. No financial demand will be made by

any unit on the federal centre — none will approach it for ending its financial worries, and the Centre also will not be required to spell out all kinds of ingenious measures for meeting the units' demand for funds. Centre-State financial relations will then reach the vanishing point and cease to be the live issue it is today in all federations including our own.

This is, however, a counsel of perfection which has no place in this imperfect world of ours. Things approximated as closely as possible to this ideal state of affairs in the United States of America until the end of the nineteenth century. In the American Constitution the national government is given powers to tax and borrow which were found to be ample for its financial needs. The States which were left with reserved powers of similar nature found the arrangement quite satisfactory during the period and were never handicapped by financial stringency. "For more than 100 years the arrangement worked remarkably well, with little competition or overlapping." (Ogg and Ray). The U.S. Constitution had made no provision for inter-level financial collaboration and until the commencement of the present century the need for making good the omission was not felt.

A gap between the financial needs of States and their resources appeared because of the proliferation of governmental functions. With its superior taxing and borrowing powers the Federal Government encountered little difficulty in fulfilling its obligations. It was in a position to meet whatever additional demands were made on its financial resources by expanding public expenditure stemming from expansion of operations. Such extension of the area of operation was rather limited in the case of the federal centre but was very much larger in the case of the States whose bill on social services had been steadily mounting over the years. Forced by tradition and practical circumstances to

rely mainly on general property taxes (whose possibilities are large but not inexhaustible) the States were less fortunately situated and in time they were in effect faced with the alternative of surrendering to the national government functions which they no longer could support or retaining them but accepting even soliciting—federal assistance for carrying them on. This assistance came in the form of grants-in-aid which have now become a balancing factor in the States' finances in the United States.

In India the evolution of Centre-State relationship has taken a different course. The present pattern of Centre-State financial relations defined in Chapter I of Part XII of the Constitution has been influenced in no small measure by the accidents of history. The long history of financial devolution in India from the early days of total centralisation to the present system of co-operative decentralisation through progressive shedding of authority by the Centre makes fascinating reading. The second chapter of the First Finance Commission gives a competent survey of the relevant developments spread over sixty years culminating in the transfer of power and the enactment of the republican constitution of the country.

Unlike the United States, in India progressive transfer of financial authority from the Centre to the States leading to the gradual strengthening of the financial base of the latter has not been a voluntary and smooth process, which began during the British regime. Both during dyarchy introduced by the Government of India Act of 1919 and the period of provincial autonomy granted by the Government of India Act of 1935 a tussle for power, both administrative and financial, developed between the Government of India with its enormous authority and the provinces with their varying degrees of self-rule. Popular ministers during the dyarchy and the popular ministries during the period of

provincial autonomy found in the limited financial powers of the provincial governments a stiff obstacle to the realization of their social welfare aims. This led to the demand for greater financial autonomy for the provinces. The provisions in the Government of India Act of 1935 and the subsequent Niemeyer Award constituted an effort at compromise intended to reconcile the conflicting claims of an authoritarian Centre and the democratically disposed provinces. The plan for financial dispensation in the Government of India Act 1935 without doubt had much to commend in it and the constitution-makers of free India have paid a high tribute to it by incorporating essential features in the Constitution they have framed.

Examination of the relevant provisions in the Constitution (Articles 268 to 270, 272-276) shows that in India Centre-State financial relations are dominated by the Centre. Not only does the Centre impose those taxes the proceeds of which it shares with the States, it also is empowered to levy taxes that exclusively benefit the State. Article 209 enumerates the taxes the Union Government has the power to impose but the proceeds of which are entirely assigned to States. These are:

- (a) duties in respect of succession to property other than agricultural land;
- (b) estate duty in respect of property other than agricultural land;
- (c) terminal taxes on goods or passengers carried by railway, sea or air;
- (d) taxes on railway fares and freights;
- (e) taxes other than stamp duties on transactions in stock-exchanges and futures markets;
- (f) taxes on the sale or purchase of newspapers and on advertisements published therein;
- (g) taxes on the sale or purchase of goods other than

newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce.

Again, it is Parliament that decides how the proceeds of these taxes are to be distributed among the various States. Further, the yield from such stamp duties and such duties on medicinal and toilet preparations as are mentioned in the Union List is wholly assigned to the States which also collect them (save the receipts in the Union Territories where the Government of India is the collecting agent) but the duties themselves are levied by the Union Government. Thus over a large area of taxation designed to benefit the States they are powerless to levy them or even to determine the rates. They have to depend on the judgement and discretion of the Union Government in such a vital matter.

Apart from these Centrally-levied State taxes there is the other category of taxation which is undertaken primarily to augment the revenue of the Government of India but part of the proceeds of which is distributed among the States. These are "taxes on income other than agricultural income" (excluding corporation tax) (Article 270) and Union duties of excise other than such duties of excise on medicinal and toilet preparations as are mentioned in the Union List (Article 271). It has to be noted that while the sharing of the proceeds of income-tax is a constitutional obligation, the sharing of the yield of Central excise duties is not. The States will get a share of the Central excise if only Parliament by law so provides. This, however, has become such an established practice and has found such powerful support in the recommendations of successive Finance Commissions that there is no possibility of the States ever losing this profitable and developing source of revenue.

Moreover, as the Neogy Commission points out, the constitutional position in this regard is somewhat anomalous.

Article 272 leaves the matter wholly to Parliament while Article 280(3) (a) enjoins upon the Finance Commission to consider the distribution of taxes which are to be and may be divided between the Union and the States. The First Finance Commission took the view, which is perfectly sensible, that "it is within the competence of the Commission to recommend to the President the division of Union excises" but, prudently it went on to add, its recommendations in this behalf could not be implemented without a law of Parliament. Nobody has questioned the validity of the Neogy Commission's judgement which has been endorsed by successive Finance Commissions. All the three Commissions that came after it following its lead have made recommendations on the sharing of Union Excise Duties. From a modest beginning with three commodities on the divided list—tobacco (including cigarettes, cigar, etc.) matches and vegetable products in 1952-53 the scope of distribution has been expanded to include the entire range of the basic excise duties. Twenty per cent of the net proceeds of the duties of excise are currently distributed among the States.

Of the two divisible imposts income-tax has been the focal point of a fierce controversy. It has been a real bone of contention not only between the Union and the States but also between the States themselves. All that the Constitution lays down is that a certain percentage of the net proceeds of income-tax in a given year has to be distributed among the States. Neither the percentage of collection to form the divisible pool nor the proportion in which it is to be shared by the States is specified. That task is left to a five-member Finance Commission to be set up ordinarily at an interval of five years (Article 280). The First Finance Commission was constituted in 1952 under the chairmanship of the late Mr. K. C. Neogy and has been followed by three more in 1957, 1961 and 1965.

There is considerable divergence of opinion on what an ideal pattern for division of income-tax should be. Significantly the recommendations of the First Finance Commission did not settle the issue which had to be reopened again and again by its successors. The practice of sharing income-tax between the Centre and the provinces dates back to the British days. When the First Finance Commission was set up the arrangement was to assign to the States 50 per cent of the net proceeds of income-tax. This was based on Sir Otto Niemeyer's recommendation in 1936. The Neogy Commission proposed that the percentage should be raised from the prevailing fifty to fifty-five, which was boosted to sixty by the Santhanam Commission, to 66-2/3 by the Chanda Commission and then to 75 per cent by the Rajamannar Commission. Whether it will eventually go up to hundred per cent one cannot tell. But that is what some States have demanded.

Distribution of the divisible pool of income-tax among the States presents a challenging problem. If all States had been equally developed and the range of income more or less uniform in all States the discovery of an acceptable formula would not have been a difficult task. But in a country where only a small number of persons pay income-tax and they are concentrated in certain areas the demand for a share of its proceeds becomes almost a scramble for funds. With economic imbalance so pronounced and variations in population so wide it is not easy to evolve a plan that will match equity with developmental needs. The size of a State's population offers no guide to its contributions to the total collections from income-tax nor is there any correlation between a State's financial needs and the income-tax originating within its territory. The result is that no universally acceptable allocation scheme can be devised.

Shared taxes are an Indian novelty—at least in the manner

in which they are divided. In most of the comparable federations of the world, the right to tax income is shared by both the Centre and the states, or provinces, as the case may be. This is true of the United States of America, Canada and Australia, for instance. In Australia, however, since 1942 the Commonwealth Government alone has levied income-tax. In return for surrendering their right in this field of taxation the States are reimbursed by a grant from the Commonwealth out of revenue received. The amounts of grants are fixed by reference to what each State was raising in exercise of its own constitutional right to tax income. In Canada fiscal dyarchy which was kept in abeyance during the war has returned after 1962. The tax rental system introduced in 1942 — which gave the Federal Government the exclusive right to tax income and reimburse the States for loss of revenue from the source—was discontinued, and their right to tax income was restored subject to an arrangement with the Federal Government. In the United States taxes on income are concurrently levied by the federal centre and the States. The question of sharing, therefore, does not arise.

So experience abroad can throw little light on how to tackle the problem of distributing the proceeds of income-tax between the Union and the States. By a process of trial and error, the financial authorities here hit upon a workable scheme in the pre-freedom days. This was bitterly criticised as being arbitrary, irrational and politically motivated. After careful consideration, the Finance Commissions in free India have come round to the view that only two factors can be taken as proper bases for a scheme of distribution of the proceeds of income-tax among the States and these are population and contribution. The Fourth Finance Commission holds that "though contribution is not synonymous with collection, in the absence of data necessary for the

correct determination of the contribution of each State, collection must be taken as the only available indication of contribution." In the current plan of income-tax allocation only these two factors, population and collection, are taken into account.

Even that does not set all controversies at rest. The crucial question is: what should be the relative importance of these two factors? Larger States naturally demand that population should have precedence over collection which, they argue, is an unreliable indicator of the origin of income. Industrially developed States, such as Maharashtra and West Bengal, on the other, contend that the size of collection offers the fairest guide and should be given due weightage. The latter point of view is practically rejected by the Fourth Finance Commission which recommends that the divisible pool of income-tax should be distributed among the States on the basis of 80 per cent for population and 20 per cent for collection. This clearly favours the more populous but comparatively backward States and penalises those that are industrially and commercially advanced. The Rajamannar Commission wants this to be a permanent arrangement. If its viewpoint proves acceptable to its successors, the industrial states will be under a serious financial handicap. For the better course would have been to allocate income-tax proceeds principally on the basis of collection taking recourse to the device of grants-in-aid to offer financial help to the needy States the quantum of which could have been progressively reduced with their economic development and the corresponding rise in their tax-collecting capacity.

The Constitution recognises grants-in-aid as a suitable instrument for offsetting inter-State financial disparity. Grants-in-aid payable to the jute-growing States of Assam, Bihar, Orissa and West Bengal fall in a special category—

this is compensation for loss of export duty on jute and jute-products, the yield from which now goes to the Central exchequer, and has nothing to do with assistance grants contemplated in Article 275 (1) of the Constitution. The Finance Commission has been charged under Article 280(1) (b) with the duty of determining principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India. The First Finance Commission laid down a number of principles which should be followed in making grants-in-aid to individual States. These have been accepted as guidelines by the three other Finance Commissions in recommending grants-in-aid for individual States.

In recent years, grants-in-aid have come to be deemed as a legitimate fiscal tool in the hands of the Union Government to close the revenue gaps of the unaffluent States. This is the fourth Finance Commission's basis for making recommendations for grants-in-aid in discharging its constitutional obligation. Six States, Bihar, Gujrat, Maharashtra, Punjab, Utter Pradesh and West Bengal were excluded from the purview of the recommendations for grants as in its calculation after meeting the revenue deficits estimated for the five-year period (1966-67 to 1970-71) the amounts accruing to them as their shares of the various taxes and duties (i.e., shares of income-tax, estate duties, Union excise duties, additional excise duties and grants in lieu of tax on railway passengers) would result in a surplus. On this criterion, ten States qualify for grants-in-aid—Andhra, Assam, Jammu and Kashmir, Kerala, Madhya Pradesh, Madras, Mysore, Nagaland, Orissa and Rajasthan—because their revenue deficits for the Fourth Plan period are anticipated to exceed their shares of the shared taxes.

The overall financial picture that emerges is that constitutional financial devolution has made the States heavily

dependent on the Union for pushing ahead with their developmental plans. The financial autonomy of the States is largely illusory, for without their share of the divisible pool of the Union taxes or taxes levied and collected by the Union they cannot meet their financial obligations. To rely exclusively on the sources of revenue that figure in the State list would be to court disaster. Of these, general sales tax has proved to be a fruitful source of revenue with State excise a poor second. The income from land revenue—once the mainstay of provincial finance—reveals a declining trend while that from agricultural income-tax has become stagnant. Other important sources are stamps and registration, motor vehicles tax, electricity duties, taxes on motor spirit, and entertainment tax. It is obvious that however vigorous the States' tax effort may be they cannot be independent of the Centre in the field of finance.

The genesis of the theory of shared taxes is to be found in the valid criticism during the British regime that allocation of financial resources to the provinces was so inadequate that it was impossible for them to perform their limited ministrant functions. It was contended that the Centre with its static duties such as administration and defence had command over all the elastic sources of revenue such as income-tax and corporation tax whereas the provinces with their expanding obligations were saddled with inelastic sources of revenue such as land revenue, excise on liquors and stamps. As a compromise measure, the plan of shared taxes was developed. The charge of iniquitous division of resources has not lost its basic validity even after transfer of power. The criticism has been sought to be rebutted through continuance and extension of the principle of shared taxes reinforced by schemes of transfer of resources from the Union to the States through grants-in-aid.

Introduction of planning has further increased the States' dependence on the Centre for financial resources. For development projects of a capital nature States have mostly to draw on the Union resources since few of them are affluent enough to finance them out of their own funds. True, they go to the market for raising resources. But without assistance from the Centre they cannot hope to execute bigger projects that will take a long time to produce their benefits. Central assistance to States by way of shared taxes, grants and loans have been steadily growing ever since the commencement of planned economic development. This has become an important source in the overall budgetary resources of the States. In 1966-67 such assistance to States aggregated to Rs. 1,708 crores and formed about 55.3 per cent, that is more than half, of the total expenditure of the States. Of the total of Rs. 1,708 crores, Rs. 373 crores were shared taxes, Rs. 419 crores were grants and Rs. 916 crores were loans. It is interesting to note that of the aggregate outstanding debt of States, which totals Rs. 6,820 crores, as much as Rs. 5,222 crores is owed to the Centre. Thus not only are the States becoming increasingly dependent on the Centre for funds to meet budgetary needs, their indebtedness to the Union Government is also rapidly mounting.

What political impact this alteration in the Centre-State financial relations will produce is not easy to forecast. So long as the same political party or parties with identical political views and aims ruled the roost in New Delhi and the provincial capitals, no serious political estrangement between the Centre and the States was possible. The general election, however, has totally changed the political perspective and some of the States may demand a fresh approach to Centre-State financial relationship. Many of them are already finding the resources at their disposal—even when substantially augmented by grants from the Centre—too

inadequate to implement their ambitious social service schemes. At the moment not much can be done because the existing devolution cannot be changed save by amending the Constitution. The powers of Finance Commissions are extremely limited—they relate only to formulation of schemes for distribution of shared taxes and allocation of grants-in-aid. The cry has already been raised for financial reform that would be in greater conformity with the altered political pattern in the land and is likely to grow more insistent as the new Government's schemes for social welfare begin to founder on the rock of finance.

Apart from the emerging political pressure, the needs of finance are no less compelling for a change in the existing financial devolution entailing modification of Centre-State relationships. The income-tax has reached a dead end and although receipts from excise have been rapidly rising it is unlikely that the trend will continue indefinitely. In any case there is little scope for further variations in the plans for distributing the proceeds of shared taxes. After what the four Finance Commissions have done, no fresh ground can possibly be broken in this limited field. If the State's helpless reliance on the Union for funds is to end, steps must be taken to lay hand on the Ark itself and change the pattern of financial devolution the Constitution sanctions. The aim of such a revision should be to reallocate resources in such a way as to make the Union and the States financially less dependent on one another. The two cannot be put into two watertight compartments, but things can be rearranged to give the States larger financial powers consistent with their autonomy. A meaningful step towards the States' financial independence can be taken if personal income-tax be transferred to the State list. This will not be too hard on the Centre because that source has ceased to be elastic—the element of flexibility has now passed on to corporation tax. If the Union



retains the latter and releases personal income-tax to the States their finances will considerably benefit without doing serious damage to the Centre's revenue-raising capacity.

Such a measure will help improve the States' finances. They will, however, still need additional props to support them unless, of course, the revenue from their existing sources so expands as to cause their budgetary deficits to disappear. Theoretically that is possible for with greater economic prosperity living standards are expected to rise which should be reflected in higher receipts from sales tax, electricity duties, motor vehicles tax, taxes on motor spirit and entertainment tax. Development, however, is a time-consuming process and it will take long for Indian economy to attain the level reached by the developed nations. In whatever way resources between the Union and the States may be reallocated, the latter cannot be financially wholly independent of the former in the near future. For some time to come it will be, therefore, necessary to support the State revenues with assistance from the Centre.

The best way to do this would be through extension of the principle of divided taxes combined with rationalisation of the system of grants-in-aid. Radical fiscal reformers have suggested that the States' share of Central excise should be raised from the current twenty per cent to seventy-five per cent; that additionally they should also get a share of corporation tax and customs. Some of these claims are on the high side. But sooner or later for the sake of harmonious Centre-States financial relations it may be necessary to transfer from the Union larger financial resources to the States and this can only be done by expanding the area of shared taxes. This may have to be accompanied by transfer of selective welfare functions from the Union to the States. For strengthening the Centre it is necessary to abridge the area of Union operations correspondingly increasing that

of the States in the sphere of social services.

The principles governing the grants-in-aid of the revenues of the States out of the Consolidated Fund of India were laid down by the First Finance Commission which its successors have generally found unexceptionable. It is also generally accepted that the gap between the ordinary revenue of a State and its normal revenue expenditure should as far as possible be met by sharing taxes and that grants-in-aid should be the residuary form of assistance. But that will make grants-in-aid a sort of special relief for States in distress. Whenever the financial circumstances of a State so require, special grants should be made to it to tide over temporary difficulties. But if grants-in-aid are to be deployed as a balancing factor in the States' finances they should be need-based, the need being related to specific welfare projects of an abiding value undertaken by a State.

Enough has been said to indicate that Centre-States financial ties have many loose ends all of which cannot be smoothly knit together by a statutory Finance Commission with its rigid terms of reference. Whether its constitutional functions can be stretched to include revision of the devolution scheme is a debatable point. The exigencies of the present situation, both political and financial, demand the early setting up of a Commission to go into the entire gamut of financial relations between the Union and the States. Dispassionate, objective examination of the relevant issues at the expert level can alone find a way out. The Finance Ministry should be seized of the matter before political pressure from the fund-hungry States compels it to act.

## A NEW CONCEPT OF CAPITALISM

M. V. ARUNACHALAM \*

IN INDIA, the name A. D. SHROFF, has almost become synonymous with Free Enterprise as he was perhaps the first articulate free enterprise theoretician in India, if indeed that term could be applied to him as he was essentially a very practical man. He endeavoured to project among the people of this country a favourable image of the Indian Industrial and entrepreneurial class. The monumental service of Mr. A.D. Shroff to the Indian people has been the creation of the Forum of Free Enterprise, which has become the popular platform for uninhibited discussion of current economic policies of the Government. While Indian private enterprise has a history, as old as that of India itself, it was given to Mr. A.D. Shroff to provide a modern orientation and public image for it to keep in tune with the changing needs of our times. Since Independence, in the changed context of our nation's economic policy, private enterprise has come under meaningless suspicion, despite its unquestionably splendid and efficient performance. The people of India, whose sobriety, patience and perseverance have almost become proverbial, have become silent and satirical observers of the drama

\* At Madraa.

enacted by political expediency. Their silence, however, does not amount to acquiescence in the staid policies of the present-day administration. They have indeed become helpless and unwilling tools in the hands of politicians. The economic difficulties that India faces today, is as a result of political decisions and doctrinaire policies.

Little wonder that in a traditional country, with a long history of village democracy, the decadent concepts of communism have not obtained the fullest acceptance of the masses. Doubts and dissents have been expressed in innumerable ways, although the administration has failed to take adequate notice of the same. Time is indeed ripe, that well-meaning politicians understood the present mood of the populace which is one of disenchantment with statism and a definite yearning for the adoption of the tested and tried principle of competition. Mr. A. D. Shroff, after whose inspiring name these lectures have been arranged, was a fearless champion of freedom of thought and speech. I am glad that the Forum is perpetuating his memory by providing opportunities for frank expression of views on vital subjects that concern all of us.

Obviously like the 'Privy Purse', I am an anachronism. Otherwise in keeping with the times, I would have chosen the title of my talk to be—

## A NEW CONCEPT OF SOCIALISM

In our country today, Capitalism is a detestable word. Capitalism is historically linked to colonialism. The Indian, like most other Asian intellectuals, whether or not generally Marxian in his thought, has been deeply infected with the Marxian doctrine of economic imperialism. Socialism on the other hand is a wholesome word somewhat as democracy now is in the world over. Everyone appropriates it as a word of

art, injecting whatever content he chooses. In its least formidable and very probably most common Indian meaning, 'Socialism' connotes simply a society that offers growing economic security and improving increasingly equal opportunity to all of its citizens. The economic scheme of things that I am about to outline today will fit in nicely with this definition of 'Socialism' and the content of my talk could be left unchanged even if the title was varied to A NEW CONCEPT OF SOCIALISM. Nevertheless I chose to retain the title A NEW CONCEPT OF CAPITALISM partly because of the ingrained traditionalism in me and partly to underline the desirable economic evolutionary process that Capitalism has been undergoing and also partly because I feel strongly that one should not make certain fundamental concessions and concede ground lightly as though what was involved was only a semantic gap.

The most significant feature of the economic life of the present day is the increasing realisation that the material needs of man could after all be satisfied through quicker economic development. Except perhaps in the Afro-Asiatic continent, in a large number of countries, the minimum needs of man having been satisfied, people are well up on their way to meet what was formerly regarded as luxuries, such as automobiles, television sets and whole wide range of durable consumer goods. A common feature of Europe and U.S.A. is, that technological revolution had generally prefaced their economic development and had generally preceded political awakening among the masses. Even in U.S.S.R. and Japan, technological revolution has been the basic cause of economic prosperity. In Soviet Russia, the political system through the dictatorship of the proletariat has enabled the diversion of investment funds along certain chosen channels, although in terms of results and efficiency, U.S.S.R. lags quite behind the European countries. Similarly in Japan

the MaCarthar administration was largely responsible for creating the framework for quicker economic development. Thus whether in East or West, economic development takes place in the same manner and requires, as a *sine qua non*, technological revolution and an atmosphere that supports a high level of savings and investment. In free countries while technological revolution, saving and investment develop out of the natural volition of the people themselves and is moulded and shaped to result in tangible consumable articles by people endowed with managerial and entrepreneurial talents, in communist countries an impersonal state organisation decides about the vital parameters of economic growth. Thus it is not often recognised that the same technical methods are employed in the farms and factories of U.S.A., U.S.S.R., Europe and Japan, although the economic systems which these countries have laboriously built up fall into fairly recognisable two distinct camps of capitalism and communism. The major difference however lies in the 'decision making-complex.' In totalitarian countries decisions regarding the use of natural resources and capital are taken by impersonal state agencies and are ultimately forced upon the people, whereas in democratic countries investment decisions are made voluntarily by the entrepreneurs, having regard to the prevailing demand, profitability and competition.

Whatever be the nature of the economic system it is of utmost importance that efficiency, economy, productivity and profitability are retained. There should be the least waste of work, capital, land or natural resources. To achieve this end, it is better to have separate firms and farms competing with each other. Even in Soviet Russia, it is being increasingly recognised that a single state monopoly invariably shields a great deal of inefficiency and waste. In capitalistic countries, giant corporations like General

Motors or Du Pont are clinically observant of the performance of their companies and they judge the same through intermittent inter-firm or inter-&visional comparisons. They are also kept on their toes through vigorous international competition. Soviet Russia also seems to be quickly recognising the efficacy of the capitalist model of development. In this regard, a curious revelation has been made by Nikolai N. Smelyakov, Deputy Minister of Foreign Trade, in his recent book 'Business-like America'. Smelyakov unhesitatingly recommends that many features of 'Business-like' American capitalism be adopted by Soviet Union in view of Russia's interest in understanding and creatively using the experience of other nations, regardless of their social structure. He also lauds the diligence of most American workers, the efficient and polite service in stores and restaurants, the excellence of U.S. highways and transportation facilities, schools and libraries, the productivity of American farmers and the abundance of high quality of work-saving devices for housewives.

The biggest question posing the developing countries today is which of the systems should be adopted for rapid economic development. During the forties and fifties, most of the Afro-Asian countries which were suffering under the yoke of colonialism, were often confused between nationalism and communism. Nationalistic sentiments, directed against countries which had adopted capitalism or milder versions of the same system, made them opt for semi-communistic models of development with major emphasis on nationalisation and the establishment of statist projects. But in the course of the last twenty years, the adoption of communistic systems has only postponed economic development and the follies of state enterprises are increasingly dawning upon the minds of the leaders of these countries. Indian experience, in this respect has been none too good. According

to the Annual Report for 1964-65 on Central Government undertakings, there were 66 such state undertakings with a total investment of Rs. 2,037 crores. Investment in running concerns amounted to Rs. 1,569 crores yielding a net profit of Rs. 19.49 crores representing a return of less than  $2\frac{1}{2}\%$  on their equity. The Audit Report (Commercial) for 1966 of the Central Government makes startling disclosures. A loan of Rs. 357 crores to Hindustan Steels Ltd., was granted by the Government free of interest. Apart from this subsidies have also been granted to meet operational deficits. The Third Five-Year Plan had been predicted on a return of 12% from investments in state projects. But in view of the poor performance of states projects, for many years to come this target may remain unattainable.

It is in this context, one is unable to understand the claims made in favour of nationalisation and further diversion of funds along statist channels. In the hey-day of 18th century renaissance, it was widely believed that representative democracy would ultimately crystallise in good Government and also create the best productive and distributive system. However, in the later half of the 20th century an ardent democrat is bound to be disheartened by the impoverishment of political democracy and in developing countries it had led to sectionalism and short-term calculations. Political leadership has also begun to drift with the tide and has unfortunately degenerated into followership which often serves organised interests or pursues temporarily popular policies at the alter of long period gains. Democracy in developing countries finds it politically expedient to subject the interest of man as consumer to his interest as producer. The distribution and consumption aspects are more articulated than the vital concepts of saving, investment and production.

In the developing countries of the world, which are faced with a multitude of difficult problems, such as population

explosion, illiteracy, poor state of agriculture and industry, political leaders have always found it convenient to play upon the prevailing discontent and in tune with the Marxian theory, they have worked towards abortive revolutions. Capitalism, in contrast, with its emphasis on evolutionary progress has proved that wherever it has been adopted, it had resulted in quicker economic development. The free market system, as Professor Lionel Robbins points out, "is not a plan that has been tried and failed. It is a plan that has never yet had a full chance." Adam Smith, saluting the dawn of the new industrial age in the *Wealth of Nations* (1776) exulted in the vast accretions of wealth rendered possible under a regime in which trade is free, machinery general and labour minutely subdivided. The sober confidence of the Scottish economist was justified by the later course of events. Free trade paid: Industrialism was an indisputable source of accumulating material prosperity, by whatever tests national wealth may be measured, its progression all through the nineteenth century was unimpeded.

Similarly in West Germany, the competitive capitalistic system under the wise and sagacious leadership of Professor Ludwig Erhard, has rehabilitated the war-shattered German economy beyond recognition and in less than 20 years West Germany has come to enjoy one of the strongest economic structures with a sound currency. The other European Common Market countries, Japan, Taiwan, Spain and Israel have all proved the merit of the free enterprise system. Quite unbelievably, capitalism has paved the way for evolutionary progress conferring unheard of benefits on the people who ever have opted for such a model of growth. It is most unfortunate, as Robbins bemoans, that such a "revolutionary impulse has been supplied by the anti-liberal and restrictionist policies flowing from the mercantilist doctrine and has

culminated in modern times in the straight-jacket statist planning, which has cribbed and cabined the growth of the economies by fixation of limits on the entrepreneurial powers through stifling economic and fiscal policies."

An outstanding feature of the recent past has been the spread and adoption of Marxian ideas in the developing countries. The prevailing economic climate in these countries characterised by over-population and poverty has been the primary reason for this tendency. However, it should be borne in mind that Marxian doctrines were based on the experience of England which was passing through a prodigious industrial development in an earlier century; such a situation is not relevant to India and many other developing countries in a later century since newer and more sophisticated methods of economic development can and have been successfully adopted in various countries. Nevertheless Marx is being preached taking advantage of the misery that is naturally prevalent in developing countries due to over-population and lack of economic growth and not as a result of industrial capitalism.

Marx has always courted the admiration of intellectuals if only for the fact that it was an exercise in social theory containing so many strands of thought and human behaviour and encompassing social clashes, economic behaviour, the nature of the state, imperialism and war, all woven together in a vast and great fresco running from the depth of the past and peering far into the future. The central piece of Marxian doctrine lies in the process by which the Capitalist stage would inevitably lead to the final stage of communism. His notion involved a continuing exploitation of labour—the proletariat—by the entrenched capitalist classes. Labour was never paid its full value. If wages threatened to rise, capitalists replaced labour with machinery, thus creating a large body of unemployed whose existence kept wages

down. At the same time, capital accumulation proceeds, profits also inexorably tend to fall, since the workers who are the originators of profits were replaced by machinery. Capitalist concentration also proceeds apace with productive plants come to be owned by even fewer people of ever greater wealth. The Marxian capitalist has infinite shrewdness on everything except matters pertaining to his own ultimate survival. He continues elaborately down the path of his own destruction. The worker, by contrast, whom he degrades and beats to a hopeless pulp, is gifted with quick perception capacity to learn.

In fine, the centralisation of production produces torpor, stagnation and hopeless weakness in the face of the masses who have now become a disciplined industrial army. Then the knell sounds and the expropriators are expropriated. So ran the gospel of Marx who hated nationality with the rancour of an outcaste, despised liberty with the arrogance of a despot and throughout his life lost no opportunity of assailing the class from which he himself had sprung.

The course of European events subsequent to Marx was destined to give little or no comfort to those who believed in a world-wide war of classes. The hope that internationally organised labour might avert national wars has been signally falsified in the event. National rivalries have proved stronger than the loyalty to an economic grouping. Forces acting within the boundaries of individual nations, not the resolutions of international labour, have achieved whatever has so far been accomplished in the domain of social reform. In England, the main scene of his labour, Marx was during his own lifetime almost a oipher. Here socialism did not sprout from the brain of a prophet, but was the inevitable result of human compassions. The element of fierce class hatred which inspired continental movements was absent. The 'working man', as Shaw observed, "respects the bourgeoisie and wants

to be bourgeois: Marx never got hold of him for a moment".

The Marxian analysis set against recent economic history definitely sounds preposterous. Marx concluded that the capitalistic system would inevitably lead to the impoverishment of the masses and that the revolution which would usher in communism would come as the end-product of capitalistic development. In point of fact, neither of these predictions is supported by subsequent historical experience. One of the most outstanding features of development in the West and in countries that have adopted a capitalist model of development has been the extraordinary improvement in the conditions of labouring classes; and as for revolutions, they have taken place, not, as Marx had predicted, in the advanced, capitalistic societies, but in the poor, relatively underdeveloped countries, many of which have hardly gone through the capitalistic stage at all. Thus any inquiring and rational mind is likely to find Marx a rather misleading guide to the growth process. Paradoxically, the deep evangelical piety of the Russian went out to meet a new religion, which, apart, from its offers of peace, bread and the land, proceeded on the maxim that the last should be first and the first last. For though Russian Communism denounced religion as the 'opium of the people', it bore, like Islam, the marks of a religious faith. It was cosmopolitan, militant, propagandist. Lenin was its prophet, the Communist Party its Church and the writings of Marx constituted the Koran.

Marx once observed with some justice that, "Economists are like theologians... every religion other than their own is the invention of man, whereas their own particular brand of religion is an emanation from God." As Joan Robinson observed, "To a Marxist, as to any believer in a faith, the opponent is not merely in error but in sin. Dissent is disapproved of not only intellectually but also morally."

Inequality which was an ancient preoccupation of economics

and the cardinal feature of Marxian profusions has faded into oblivion as a major economic issue, at least in the advanced countries. Increased production has offered itself as a challenging alternative to redistribution. It has also been the great solvent of acute tensions associated with inequality. As Galbraith points out in his *Affluent Society*, the "oldest and most agitated of social issues, if not resolved, is at least largely in abeyance, and the disputants have concentrated their attention, instead, on the god of increased productivity. This is a change of far-reaching importance." And the increased concern for production in modern times has also pre-empted the field once occupied by those who disputed over who should have less and who should have more.

Economic discussions during the 'Fifties' and the 'Sixties' have been very much concerned with problems of growth and the literature has been soaked with Keynesian and post-Keynesian ideas. In the process, the classical theory of development which has the greatest relevance to a great part of world of today has been relegated to the background. 'The classical school' was the compendious name given to the writings of Smith, Malthus and Ricardo. These economists concentrated their attention on two sectors — population growth and the limitations on natural resources — and concluded that the 'natural progress' of a society was in the direction of a "stationary" state where the great mass of population would be living on the very edge of subsistence. This is perhaps the realistic picture of the Afro-Asiatic Continent where "population explosion" and pressure on land have made 'diminishing returns' a very real and dismal possibility. The classicists, however, failed to perceive the possibility of persistent and rapid growth.

The modern approach to development calls for a violent break in the "vicious circle of poverty". As Ragnar Nurske explained, in a poor country, the standard of living is at a

very low ebb. Obviously the level of savings is also low which affects capital formation. Without capital accumulation, output and productivity remain low, which again is *the* cause of poor standard of living. The circle is complete. In total contrast, economic growth helps to develop attitudes and mechanisms which will promote further growth. **Once** established, modern economic growth tends, by and large, to be self-sustaining, by which is meant the development of the economy without external pulls and pressures. Economic growth is almost as infectious as influenza and generates its own momentum as it goes along. The early phase of growth is bound to be critical and concepts such as take-off, big-push and industrial revolution etc., suggest that a fairly **substantial** change in the economy may lead the country from chronic poverty to chronic growth.

Capital accumulation and technological progress are the two potent features which signalise economic prosperity. Capital accumulation is also indispensable for expanding production and providing employment for the growing labour force. There is a world-wide capital shortage and to a large extent this has been the limiting factor for developing in developing countries.

Developing countries have to act in two directions to speed up capital accumulation. Externally, they have to create a suitable economic climate which favours private foreign investment. Internally, economic and fiscal policies should be drawn having regard to their impact on savings and investment.

Indian experience in both these respects has been woefully inadequate and the country is paying dearly due to the ill-conceived policies of the State. Private foreign investment, despite its concomitant advantage of the flow of technical know-how, has not grown to the desired extent in India. **It is** also in a way related to the **general** economic policy

and mood prevailing in the country. Secondly, the **high level** of corporate taxation leaves very little margin for **creating** investible resources. Social legislation in **India** in the recent past has **also** created conditions where the labour force has become the most protected and pampered sector of the society. A kind of syndicalist trend is clearly **discernible**, where the claims of organised labour are being **increasingly met** even at the cost of the interest of the general public.

While the virtues of communism, masquerading under **the** guise of 'socialism', are being vigorously preached, the political hangers-on in developing countries have found a veritable scapegoat in the entrepreneurial and **trading** class and have **lost** no time in painting a **wrong** picture of "capitalism." The need of the hour in developing countries is to turn the attention of the **masses** towards production, which is the best solvent of **all** social tensions. The propaganda in favour of **nationalised** projects would only lead to further wastes and inefficiency. **It is** amazing that political leaders in India refuse to learn from our own experience with the Public Sector projects. **On the** contrary, the bogey of monopoly is being raised time and again, and egalitarianism and redistribution are being propagated, although this would in reality mean only the lengthening of the shadow of poverty throughout the length **and** breadth of the country.

What India needs today is a bold and determined change of economic policies and priorities, which would favour vigorous competition, encourage savings, provide incentives for fresh investment. The diversion of investment **funds** into the monolithic state organisations have already done sufficient damage to the economy, besides stifling the entrepreneurial enthusiasm and efficiency. Political leaders **must** embolden themselves to admit past errors **and** prevent further deterioration in the situation. The time-honoured

system of competition is bound to rescue the Indian economy **in** time, if only the powers-that-be hasten to create a climate where competition, which is the mainspring of activity **and** progress, is permitted a free play. Rather than **trading on** the ignorance of the masses, they should be **made to** face the realities and should be informed of the follies and foibles of statist organisations. The best chances of amelioration in the condition of the masses lies in the building up of a truly mixed economy, wherein private enterprise is accorded a just and rightful place in the economic scheme, rather **than** a cursory display of toleration towards the same. There **is** an urgent need to recognise the role of private **enterprise** in boosting up not only production but also in raising **substantially** the levels of savings and investment. **Political** leaders in democratic countries enjoy enormous powers **in the** making of legislations and one wishes that these **powers** are used for the building up of an affluent society which is **bound** to convey the material benefits and luxuries to the common **people**, as it has in the U.S.A., Europe, Japan and all those countries which have unhesitatingly opted for private enterprise as the cardinal feature of their economic system. **It** is also well to recognise that no politician can make prosperity arrive if the economic and political framework is **unfavourable** to saving, investment, competition, trade, dynamic management and healthy industrial relations and to the lowering of costs; all of which are the vital ingredients of a private enterprise economy.

From the foregoing it is easy to understand why it is that; certain extreme ideological groups have a vested **interest** in creating chaotic conditions through industrial **unrest** and establishment of uneconomic State ventures. Due to a mistaken conception of Capitalism many Governments in developing countries are failing badly in their **efforts to** build a new **and prosperous** society. The end they have in view **can**



be achieved if only they would accept "A New Concept of Capitalism."

Humanity has a growing need of capital, that is, of someone's savings, spared from immediate spending, converted into the most up-to-date productive equipment, and added to the existing stock of such equipment, in order to make human work more productive, and turn out more of the things people want, with less human strain and stress. There should be emphasis on freedom and free voluntary co-operation between human beings, i.e., emphasis on team work at workplaces; team work between peoples of different nationalities serving one and the same business or industry; team work between business and industries and State authorities using each other's products and services; team work between different governments to make moneys and contracts reliable; team work between free and willing enterprisers, skilled men, researchers and experts everywhere. All such team work is vital to a dynamic, forward-looking enterprising nation, and so to enable quicker progress of humanity. We are being driven by our own technical progress to co-operate more closely, not to be more self-sufficing separately. The countries and peoples who prosper most are those who trade and co-operate most with other countries.

There should be adequate emphasis on costs; those inescapable prices we must all pay if we are to use some material, some workplace, some time, some machine, and some human work, in order to produce something which somebody is prepared to buy at a price that covers our costs. Economic progress towards meeting all the wants of all human beings everywhere can only come by cutting costs; that is by such good mixing of the ingredients of production that we can produce more of the wanted things more cheaply.

To cut costs, business and Government undertakings need more capital and more co-operation both nationally

and internationally. That means we need more profits and other savings to be invested in research and new capital equipment. It also means that we need better management, better industrial relations, better international relations, more calm and cool understanding everywhere, in order to get the most production out of the machines we invent and invest in.

Posterity will judge us not by the space-age miracles that are a feature of our times but by whether or not we have been able to meet the challenge of rising expectations. I submit that "A NEW CONCEPT OF CAPITALISM" will enable us to meet this challenge successfully.

## THE PUBLIC SECTOR : IS IT A MIRAGE?\*

A. K. CHANDA

I FEEL HONOURED to deliver the second A.D. Shroff Memorial Lecture. It is in the fitness of things, and I am sure it would accord with his own wishes, that Mr. Shroff's memory is being perpetuated not in cold marble but in a series of lively discussions on our social and economic problems and how best to resolve them.

I had the privilege of knowing Mr. Shroff personally and I had now and again occasion to discuss with him the developing political and economic situation in the country. Whilst our views did not always harmonise, I was, like many others, impressed with his incisive mind and his analytical faculty. He had a deep insight into the economic trends in the country and their possible consequences. He was thus able to shape the policies of the financial and industrial institutions with which he was associated to make them develop into national assets. Though at one time he was a great believer in planning we must not forget that he was a member of the planning committee set up by Netaji Subhas Bose in 1938 and a co-author of the famous Bombay Plan of 1944, his faith in planning had faltered in later years. Perhaps he considered

\* At New Delhi

that the political orientation and philosophy of the planning apparatus set up after Independence were unsuited for constructive economic planning. He was also dismayed by the increasing accent on the expansion of the Public Sector and consequent encroachment on fields of development which were in his opinion best left to private initiative and enterprise.

This was one thought which induced me to select public sector as the subject of my talk to-day; another was the insistence of a vocal minority for nationalising going industries which are well managed and in good shape. I propose, therefore, to attempt an objective analysis of the concept of public ownership and the manner in which it is being developed in India, drawing a parallel of its evolution in western democracies.

The question has acquired added significance by the growing demand by a section in the Congress Party that institutions of banking and general insurance should be nationalised to give them a social purpose. The proponents of nationalisation aver that the fulfilment of the objective of a socialistic pattern of society demands progressive nationalisation of instruments of production and even the distributive trade. They consider that this would restore the tarnished image of the party, improve its future election prospects and place its control in their hands as the leaders of a progressive movement.

It seems somewhat odd to me that those very people who were highly critical of the performance and achievement of the Public Sector should clamour for its further expansion. May I say with great respect to those whose bona fides and faith in nationalisation are above question that it is more important that attention and thought should be given to the efficient and economic management of undertakings already established rather than to an enlargement of the area of public ownership? May I also suggest that the vast

majority of our people are not concerned with abstract principles of socialism but with a better way of life for themselves in which the basic necessities should be really available and at prices within their reach. There should be greater realism than idealism in planning for the future.

After nearly two decades of planning, our economy is in disarray. There is recession in industrial production, unemployment and inflation and worse still, starvation in drought-affected Bihar and elsewhere. Crores have been spent over the years to give a better life to the community and to narrow the gap between the haves and have-nots. But the rise in per capita income has been disappointingly low and has not kept up with the rising cost of living and population growth. And there is profligacy of black money side by side with the misery of the slums in New Delhi itself.

Many economists consider that the orientation of the plans is responsible for this inequality and the concentration of economic power in the hands of a few and the lowering of the standard of life of the majority of the people. In the last Parliament, the late Dr. Ram Manohar Lohia made an abrasive attack on government's economic performance. Armed with an array of facts and figures, he sought to prove that 270 million people lived on only 3 annas a day. Replying on behalf of government, Mr. Gulzarilal Nanda, then the Home Minister and previously the Vice-chairman of the Planning Commission, could only say that it was not quite so bad and that the per capita spending in rural areas was 4.3 annas and in urban areas 5.3 annas. This was a damaging admission to make and did no credit to our planning or its priorities. We are still dependent on the charity of others to feed our people and the growth of population which might submerge our economy continues largely uncontrolled.

This encouraged a few to suggest that the Planning Commission should be disbanded and the planning process disconti-

nued. In support they claimed that the post war economic miracle of West Germany and Japan, both defeated in war, had been brought about not so much by planned economic reconstruction as by a policy of encouraging individual and corporate initiative. Not many would be prepared to take this suggestion seriously. India needs planning and the regimentation that goes with it. The question is what should be the limits of regulatory action and how it should be applied not to hinder initiative and enterprise.

Totalitarian and democratic states like have felt the need for economic regulations though in different ways and in differing degrees. Even U.S.A. had its 'New Deal' in President Roosevelt's time and 'New Frontiers' in President Kennedy's time.

A concomitant of economic growth and regulations is the participation of the state in certain activities of economic and national significance. First, certain types of economic activity such as the all-round development of transport, water and power resources, would not attract investment of private capital, except on a selective basis and those with profit potential; secondly, the state has the responsibility for developing backward and depressed areas; thirdly, the capital needed for certain projects would be beyond the resources of the Private Sector to mobilise; and, fourthly, the control of atomic energy and associated developments must inevitably be in the hands of the states. Despite these considerations, the growth of the Public Sector had been hesitant until the Second World War called for the total mobilisation of national resources. The emergency swept away the cobwebs of inhibition and established public enterprise on a firm foundation and over a wide field of industrial production. Ideologies of political parties had meanwhile undergone a significant change. The socialistic concept had taken concrete shape and form. This also had a profound effect

on the orientation of the functions of the state and led to the adoption of public enterprises as the appropriate instrument of economic growth.

In the U.K., post war nationalisation had a conscious and direct purpose. It was to give shape to the political and social ideologies of the Labour Party. In pursuances of this philosophy, nationalisation sought to bring under public ownership, utilities, industries and social services which had a direct impact on the everyday life of the citizen. Its aim was to prevent continuance of industrial and economic power in private hands.

In Canada, the Crown companies now occupy a central place in its economy. The process which started in a small way in the nineteenth century has assumed considerable significance now. In France as well as in the U. S. A. the share of government in the generation of total national product is not only significant and is perhaps even now higher than what it is in India today. No country, not even those wedded to the philosophy of private enterprise, has been able to escape the inevitability of state participations in industrial activity. But a clear line of demarcation has been established on considerations I have earlier mentioned. Another limiting factor has been the availability of resources of the state, both human and financial, to engage in and manage efficiently, omnibus industrial activity.

The first act of nationalisation in India was taken in the early twenties by the acquisition of the East Indian and the North Western Railways. The process of acquiring other railway systems as their options fell due to were completed in the forties. And plans had been made to establish the Sindri Fertiliser Factory in the Public Sector. But it was only after Independence and in the year 1948 that Government enunciated its industrial policy designed to promote a rapid rise in the standard of life of the people by exploiting the

country's latent resources, increasing production and offering opportunities to all for employment in the service of the community. It was recognised that for fulfilling this objective careful planning and integrated effort over the whole field of national activity was essential with the state progressively playing a more positive role in securing continuous increase in production and its equitable distribution. The spheres of public and private enterprises were broadly demarcated and the basic principle of the policy resolution was that both the public and private sectors should fulfil a complimentary role in the industrial development of the country.

Recognising the imperative of accelerating industrial growth, the revised policy resolution of 1956 stressed the need for enlarging the Public Sector but it did not overlook the need for encouraging the Private Sector to grow and even allowed private units in the reserved sector, such as iron and steel to expand. But even so, Prime Minister Nehru considered it necessary to give an assurance to allay misgivings on nationalisation. He said : "Let the State go on building its plants and industries as far as its resources permit. Why should we fritter away our energy in pushing out somebody who is doing it in the Private Sector? There is no reason except that the Private Sector might build up monopoly, might be building economic power to come in the way of our growth. I can understand, prevent that, control that, plan for that"; but when there is such a vast field to cover, it is foolish to take charge of the whole field when you are totally incapable of using that huge area yourself. Therefore, you must not only permit the Private Sector, but I say, encourage it in its own field."

It is unfortunate that this policy declaration necessary to secure optimum development is now being forgotten. There is apprehension of nationalisation and it is retarding the growth

and even efficient operation of the sectors, loosely mentioned as being next in the line of a 'progressive policy' of socialisation. This aspect apart, it might not have caused consternation had the performance of the Public Sector been upto expectation and it had been able to contribute to the exchequer a return even at the rate of government borrowing, leave alone the rate charged by the State Bank for financial accommodation.

This immediately raises the question what has gone wrong with our Public Sector. Is it organisational deficiency, is it unsound capital structure, is it inept management or is it improvident financial policy or a combination of all these in varying degrees that is tending to make the state enterprises more of a national liability than national assets? This calls for a close look. There is the suggestion that for making the public enterprises a success, government should have entered the field on a limited scale and left alone sectors in which private units were already operating. But this suggestion must be discounted as sustainable for the relative failure of state enterprises. Departmental management of ordnance factories and railway production units has been reasonably efficient and there is no reason to believe that under proper conditions government could not manage a steel plant or a fertiliser factory equally efficiently. Yet it has failed to do so. The reasons for this requires analysis.

The principle of the policy resolution demarcating the spheres of public and private sectors is unexceptionable, so is the decision to adopt the commercial form of management for state enterprises. The corporate or company form was adopted after careful consideration and mature deliberation. It was recognised that the method of recruitment, regulation of pay scales, conditions of service and discipline of employees, procedure for financial control, the system of accounting and the methods of procurement applicable

to the normal activities of government were totally unsuited for the efficient management of industrial enterprises. Moreover, when government undertook industrial activity side by side and sometimes in competition with private enterprise competitive efficiency became more important. A reliable index of comparison could be established only if the state units were managed on commercial lines and financed and taxed in the same way. It was axiomatic that the largest measure of financial and administrative autonomy commensurate with public accountability should be conferred on the agencies managing these undertakings.

These principles were considered basic for the successful operation of state enterprises. But unfortunately this concept of autonomy and freedom of each unit to develop its own code, conditions of employment, etc., suited to its own needs, were disregarded and they were soon reduced to what in official jargon is known as subordinate offices and subjected to detailed departmental control. The rules and regulations, even the pay scales and other conditions of service were drawn up for the Public Sector as a whole conforming to those applicable to government departments. As a result, the state enterprises have become even slower in movement and less efficient than units departmentally managed.

The basic principle of giving the state the role of a shareholder in a joint-stock company was discarded and the *raison d'être* of commercial management thus came to be defeated. No one would question the right of government to appoint the Board of Directors including the Chairman and the Managing Director or the special provision of issuing directives. The first is the prerogative of the shareholder, the second the concomitant of public ownership.

The character of Public Sector as an apparatus for the furtherance of the state's economic policy demands that Government should have the right to issue directives if and

when needed. It is also necessary to safeguard national interests and to ensure that the policy of Government as a whole is free from contradictions. But the further reservation made of estimates of capital expenditure above a specified amount and the appointment of higher officers being submitted for prior government approval, encroached on the authority of the boards, sapped their initiative and interfered with exercise of discretion by them. This limitation was time-consuming and it also brought an area of patronage within the reach of the ministries without the safeguards of departmental appointments, tending to make the enterprises private zamindaries of the ministries concerned.

The measure of autonomy of the enterprises can be gauged by the fact that despite the existence of the Hindustan Steel and Bokaro Steel companies and the gradual withdrawal of control over production and distribution of steel, there is a full-fledged ministry of Iron and Steel with a cabinet minister in charge. Similarly, though there are the Air India and Indian Airlines Corporations, there is a ministry of Civil Aviation again under a cabinet minister. It is inevitable in this situation that the functions of the autonomous authorities would be usurped by the ministries and there would be undue interference in their management. The enterprises can hardly grow into maturity under this dispensation and this fictional concept of autonomy.

The nationalised industries in the U.K. on the other hand are fully autonomous and in the same relation to government as private units except that the government has the right to issue directives to them. The content of their independence can be appreciated, if I were to give but one example. The British Broadcasting Corporation, a creation of the state by a charter, has time and again refused to be bludgeoned into propagating the viewpoint of the government. But there has been no attempt to curb its autonomy and its freedom to

reflect public opinion. The philosophy of the nationalised industries is that they exist for the public good and it is for them to determine what that is. It is their independent functioning which has inspired public confidence and made them responsive to public needs and demands. Occasions have indeed been rare when government has felt impelled to issue directives and when it has done so, it has not encroached upon the autonomy of the undertakings. It is this forbearance of government and Parliament alike which has made the nationalised industries a significant component of U.K.'s economic growth.

As a result of the enterprises being regarded as subordinate and secondary responsibilities of government in India, the same importance is also not attached to their manning as to the filling of departmental posts. Superannuated officials are found billeted in high managerial capacity and it is usually the unwanted officers in the secretariat who are sent out to the enterprises.

It should be obvious that if an officer about to retire is considered indispensable, he should be retained in the post in which he has proved his worth rather than given the unaccustomed role of managing a state enterprise. The short-term extension given to him also makes him more anxious to keep things going as before than to infuse new ideas and introduce new practices.

The units need imagination, initiative and enterprise and above all continuity in management. This can only be provided by specially selected officers in their early forties. The difficulty in doing so is two-fold: First, the prevalent predilection for seniority and secondly, the undue pretensions built around secretariat assignments which disincline serving officers to leave its precincts. Those who are induced to leave consider themselves as birds of passage, largely disinterested in the well-being of the units to which they are attached and look

wistfully at the plums of office which New Delhi alone can provide.

The constitution of the Industrial Management Pool and the manner in which it is being administered have not also contributed towards the efficiency of state enterprises. It was constituted by selecting applicants from business houses and the services. It was largely people who saw no future for themselves in their current employments who sought incorporation in the pool. As a result, it is hardly a pool of talents. Secondly, transfers from one unit to another either on promotion or on grounds of unsuitability are not infrequent. This comes in the way of officers becoming experts and specialists in particular lines of production and management; yet expertise is the essence of sound business management. Unless officers grow with the unit to which they are assigned and are provided with prospects of advancement in pay and status comparable with those available in the secretariat, there is little hope of the units having competent and contented managerial guidance. Personally, I see no reason why the authority, salary and status of an officer in control of say, a Rs. 600 crore steel plant should be any less than those of one of the many secretaries to the Government. In the U.K. the pay scales in the nationalised industries are broadly equated to those available in the Private Sector to ensure that the best available talent is attracted for their management. Their future could not be entrusted to the second best. In India, on the other hand, the scales are usually lower than even those available in routine administrative posts. Similarly, the officers are not given authority commensurate with their responsibility in any of our organisations. And soon they feel frustrated, disinclined, to use a cliché, to think imaginatively and act adventurously.

Officers are also appointed on a permanent footing and difficulties arise in dispensing with the services of those who

have proved to be unequal to their responsibilities. There is also disinclination to get rid of incompetent people and the expedient is adopted of shifting them from one unit to another. This lateral movement from mining to fertilisers, from pharmaceuticals to steel making and so on, does not contribute to efficiency, on the contrary it impairs efficiency. In the U.K., both in the B.B.C. and other nationalised undertakings, there is a periodic weeding out of inefficient and unwanted people. Unless we adopt the same practice, as also in our own Private Sector, of appointing people on contract with freedom to terminate the contracts of those who do not measure up, it would be futile to expect the surge of a new life in the state enterprises.

One general weakness of public ownership is that those in control have no financial stake in the concern. This consideration makes it even more important that the choice of personnel should be made with great care and circumspection. And it is necessary to create a climate of confidence, responsibility and fairplay in which the employees develop a sense of involvement and pride in the work that they do.

In the Public Sector the responsibility of the promoters devolves upon the ministry in charge of the industry concerned; knowledge, maturity and experience needed for the adequate fulfilment of these responsibilities are unfortunately always not in evidence. The dispersal of industries in several ministries of Government also comes in the way of specialisation, pooling of experience and co-ordination of policy. As the planning functions remain in the hands of the ministries, political pressures develop for the location of a unit in one state or another and the personal predilection of the minister concerned also comes into play. It is not thus unoften that an unsuitable location is decided upon ignoring economic considerations and brushing aside the advice of the technical and administrative agencies concerned. When politics and

planning get inextricably mixed up, it is planning that suffers in consequence. Obviously, the siting of units should be decided on natural advantage such as the local availability of raw materials, power and transport and proximity to areas of consumption and centres of distribution. It is only then that the units would become viable, able to withstand competition in export markets. There have been the suggestions that the location of refineries in the eastern zone was decided on political rather than economic considerations. And as we know the location of the fifth steel plant is already a bone of contention and there have been outbreaks of sporadic violence in one state to stampede government into taking a decision in its favour.

A word about the role and place of foreign associates in state enterprises. Till 1955 the policy pursued by the now defunct Production Ministry was to give the foreign associates a financial stake in the concerns. It was considered that their participation in equity capital would secure economic construction, adherence to the target dates of completion and subsequently, the economic operation of installed capacity. There being no provision for the payment of any interest on the share capital, the associates had to rely on the profits made by the companies for obtaining a return on the capital they had invested. This continued association and interest provided for the efficient operation of the production units; it eased also the foreign exchange difficulties. Our well-known deficiencies of competent technical personnel and of foreign exchange were thus substantially met by this policy. But unfortunately this policy was revised for unaccountable reasons and Krupp and Demag and Oerlikons, the associates in the Rourkela steel plant and the Hindustan Machine Tool respectively, were released from their obligation to participate in the equity issue. This in the main was responsible for the difficulties which arose later in completing the plants

in time within the original estimates.

The Estimates Committee had also recommended some years ago that 25 per cent of the equity of state enterprises should be made available for public subscription. Even if the recommendations were now to be accepted, the possibility of the republic taking up the shares would be slender; the enterprises have yet to establish their profitability. If on the other hand foreign participation is permitted, both financial and technical, it would generate confidence and encourage public interest and investment.

This reconstruction of capital structure would give us the benefit of foreign investment, easing foreign exchange difficulties and of continued technical association in management ensuring greater efficiency. It would secure public investment and participation in management which would make it broad based. It should also enable the enterprise to produce, as in other countries, a reasonable return on the capital invested and generate resources for their normal expansion. This would lessen our fiscal difficulties including deficit financing.

I have always held the view, which I had also placed before Prime Minister Nehru, that unless the state enterprises are liberated from departmental control and ministerial interference and the functions of both planning and management are placed under the unified control of an autonomous authority accountable only to the Prime Minister, the Public Sector would not be able to fulfil its acknowledged role as an instrument of economic growth. A small board of about half a dozen directors should form the authority and take over planning functions now dispersed in many ministries and thus be able to enforce uniformity in employment and commercial policies and in the pattern of association with foreign firms. The board should be both the holding and managing board of all the public undertakings and become the specialised agency for industrial development



in the Public Sector giving continuity both in policy and **management**. This alone would ensure resolute direction and eliminate the disabilities I have mentioned both in planning and managing the public enterprises.

Before I conclude, may I stress the obvious that there should be harmony, accord and understanding between the two sectors? Plans for the future should be drawn up in mutual consultation so that each is assigned tasks which it is best suited to undertake and accomplish.

At the present time, official circles distrust the Private Sector, its **bona fides** and its business methods. The tendency of some of the prominent industrialists to meddle in **politics subrosa** by large **subventions** to **parties** and individuals has been a contributory factor. Similarly, the Private Sector **views** every **official** move with suspicion and an encroachment on its freedom. It is difficult to appreciate why it **should** be so. If **conflicting** ideologies can co-exist and flourish, the dichotomy between the two sectors can surely be reconciled making it possible for them to be willing and **responsive** partners in a common national endeavour. The recent reconstitution of the Planning Commission holds **out** hopes that there would be greater **realism** in the making of plans for the future. The gradual relaxation of irksome and some **demoralising** controls also foreshadows a welcome change in government's economic policy. And it is to be **expected** that the study and recommendation of the Administrative **Reforms** Commission will induce government to make certain institutional changes which will reshape the **Public Sector** into a versatile instrument of economic growth.

I was therefore dismayed to read the newspaper **reports** a few days ago that the Minister for Industrial Development had struck a discordant note in expressing the view that the objectives and motivations of the public and private **sectors** are irreconcilable and mutually antagonistic and that they

could not exist side by side. The logical consequence of this view, were it to prevail, would be the planned elimination of the Private Sector. Its immediate impact, however, will be to create a feeling of uncertainty and a further setback to our economy already in doldrums. The need of the hour and for the future is all round development in which the entire community must participate despite ideological and economic differences. We have the talent and we have the resources. We need only team spirit to **use** them for our economic and, may I also say, our political regeneration? **Despite** the present divisive trends in the country and the unseemly jockeying for political power by **individuals** and groups without any particular faith or philosophy, our people have shown over the centuries a spirit of dedication and the wisdom of forbearance. I **am** confident that these must inevitably prevail to lead our country to new heights of **endeavour and achievements**.

