

# THE NEED FOR ECONOMIC STATESMANSHIP

S. L. Kirloskar



**FORUM OF FREE ENTERPRISE**

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

**—Eugene Black**

# THE NEED FOR ECONOMIC STATESMANSHIP

By

S. L. Kirloskar\*

It is about six months now since the Forum did me the honour of inviting me to speak here this evening in memory of one of our most distinguished bankers and economists.

A little later, when I began looking for a proper subject for my speech, I suddenly remembered its occasion—which almost chose the subject for me. For I believe that A.D. Shroff, during his long stewardship of the Forum, was desperately pleading with both Government and the people, that the logic of the country's long-range economic needs must be rescued from the influence of political expediency.

By early July, I had organised my thoughts roughly on the lines suggested by what Shroff was pleading. I even had the first draft of my speech ready then.

What has happened in the country after mid-July, and happening since, confirms my fears expressed in my first draft. But I also find that my thinking at that time was much too tentative and marked by too much of academic caution.

I now believe it is about time someone reviewed the emerging political situation much more freely and frankly. It is idle to make a fetish of "academic caution" which our rulers themselves do not seem to exercise in their public pronouncements.

I propose to attempt such a review this evening:

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\* The author is an eminent industrialist. This is the text of the Fourth A. D. Shroff Memorial Lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on October 29, 1969.

My subject is "economic statesmanship". During the past several years, I sometimes used to wonder whether we had much of it. Now I wonder whether much of what little we have will survive political passion.

First of all, however, how do we define a "statesman"? How does he differ from a "Politician"?

Adam Smith, it seems, had no use for either statesmen or politicians; for he used the terms interchangeably, and spoke of "that crafty and insidious animal, often politely called statesman or politician". The Oxford dictionary almost closely follows Adam Smith and says that the first means the second, and *vice versa*.

And yet, while defining the "statesman", the dictionary adds two attributes which are very significant. It speaks of a "statesman" as a "sagacious and farsighted politician." The dictionary does not say this when it refers to a "politician".

This is enough for my purpose. For it clearly means that while all statesmen are (or have to be) politicians—at least in a democracy—all politicians cannot be called statesmen, unless they are gifted with (or acquire) vision, wisdom, discernment—and a driving urge to reach beyond themselves and their times, to improve the economic stature of the nation over a long run.

A person with these qualities, if he is already in politics, would rise and stand above party feuds, factions and squabbles.

The range of his interests would then be national, not regional, much less sectional or sectarian.

His interests would also be more impersonal. He will be far more anxious to achieve solidly and permanently a set of definite national goals tomorrow, than to obtain a personal advantage to-day.

No doubt he would like to use political power. But that will be an instrument to promote national economic goals; not an instrument to enlarge his personal image or stature—which anyway will be independent of his use of political power.

I have not invested a "statesman" with such personal qualities as would make him the figure of popular folklore—like King Arthur. My statesman is very much a man of flesh and blood. Every country has produced its own share of statesmen of this description.

I am reminded here of Neville Chamberlain who was a politician, for he promised everything and gave nothing; and of Winston Churchill who was a statesman, because he promised nothing but "blood, toil, tear and sweat". Chamberlain made a wrong promise at a wrong moment, for he also judged the European dictators wrongly. He fell a victim to the temptation of buying peace with patchwork expedients. Churchill, on the other hand, knew the dictators better, and urged that safety lay in preparedness for war. For saying this, he did not mind a long political exile.

Then again, there was Sir Robert Peel, the British prime minister in the early 1840's. Sir Robert was himself a great landowner and was assured of sumptuous and steady income which in fact was rising due to the operation of Corn Laws which were passed soon after Waterloo.

But Robert Peel had a very keen sense of the future which, as far as Britain was concerned, lay with industry. Corn Laws, he realised, were a serious impediment to industry. After a prolonged debate in the House of Commons, Peel had them repealed, and almost promptly paid the price of his action, viz., his premier position.

There are several other examples which come to my mind. But I shall mention just two or three more.

There was Abraham Lincoln. His statesmanship was of a different order. For it involved not only staking his political career, but also his life on an issue which threatened to disintegrate the nation.

In many ways, though in his own peculiar style, Kemal of Turkey strikes me as a remarkable statesman. His achievement was mainly in the field of social revolution which changed the old face of Turkey. His methods were not always democratic; yet curiously, it was Kemal who

laid the groundwork for a smooth and democratic transfer of power in 1950—after his death.

It will be criminal not to mention here Sardar Patel as the classic example of a statesman. To integrate in just under three years the princely states with the rest of the country, was itself a feat of the highest order. To achieve this without force, argues a kind of tact and finesse which place the Sardar among the world's outstanding statesmen.

Patel's act of integration was not inspired by vulgar, demagogic motives. He did not want to abolish the "princely" states just because the rest of India was a "republic". He did it from a realisation that India already had enough potential trouble due to her linguistic regions without these numerous and isolated pockets of princely states adding to it. He knew that all talk of economic planning was idle without an integrated India.

Besides, Patel preferred to work very much in the shadow, and had not much use for the glamour and limelight of publicity. Being able to do what he wanted to do, he had no reason to aspire to the highest political office in the country, and was quite happy to work as a second-in-command.

Sardar Patel remains, in my view, quite the most inimitable model of an Indian statesman.

A nation which is a going concern as a political democracy and as an industrial power, can perhaps afford a long line of low-grade politicians, punctuated by a towering statesman. Not all the prime ministers and cabinets of England since the Reform Bill of 1832, can be counted as more than average. Nor all the presidents of the U.S. with their secretaries. But even these great democracies have needed an occasional shake-up to set things right. And it seems they have often succeeded in doing this by providing themselves with leaders of national stature with a long world-view.

This is the perspective against which we might usefully analyse the Indian scene.

Happily, I can develop my theme with the help of some

of the points which our Prime Minister pertinently brought up in her recent address before an audience gathered at the Indian Merchants' Chamber.

The Prime Minister referred, quite rightly, to the futility of "production just for the sake of production", She, however, seemed to think that Indian producers were victims of some kind of myopia which prevented them from linking production of goods with a "rise in the living standards of the masses".

I would like to ask : How can a producer or manufacturer, assuming he is motivated by the worst of intentions, produce just for the sake of producing, without an existing or potential market in view ? How can there be a market without a demand ? And what help is demand without the ability and willingness to back it by purchasing power ?

An entrepreneur does not produce just for the love of it. It is as much in his interest as it is in the interest of Government, that living standards are high everywhere. And, let it be noted, high living standards are both the source and the result of productive business activity.

Even if it is assumed that the members of Government read only Karl Marx, Harold Laski, etc., and that members of private business read only Adam Smith or Milton Friedman, there is still no escape from the fact that all private business activity has to be oriented to the satisfaction of one or the other of the various social needs. A businessman who revels in the simple act of production, will soon realise that he has revelled too soon.

The fact of the matter is that in India, while the initial datum for both politicians and private business is the same, it has been interpreted and acted upon differently.

The initial datum is the age-old, crushing economic poverty of the people of the country.

Our business people, equipped with just an ordinary economic common sense, have thought all along that if you want to banish or reduce the rigours of poverty, you should

try to enlarge the size of the national cake. In fact you should do it faster than you are breeding yourselves.

Our ruling politicians pose a Socratic question: What is the use of enlarging the cake when all but a small part of it is going to be enjoyed by those who have already had enough of it?

So they would much rather divide equitably what we already have, than risk an increase in its size which they think would any way go to feed a small section of the people which is blase' with surfeit!

This, I think, is the crux of the controversy as to whether as a nation, we should first "make good" or "do good". Or, in other words, whether we should increase our production, or redistribute the existing poverty.

Let us face it: we cannot run these two policies in double harness, and expect to reach our goal in double quick time. I do not usually quote an authority in support of a view whose validity is obvious. But since I am likely to be accused of special pleading, let me only refer to Prof. A. H. Hanson's "The Process of Planning" which is a critical commentary by a leading British socialist on the Indian experiment.

I think we are guilty of counting our chickens before their time. Government, in my view, has proceeded to build up an elaborate machinery for redistributing a larger national income which the same machinery has prevented from being generated.

But then why this rush and haste for "doing good"?

For one thing, this is one of the ways of trying to stem the tide of the "revolution of rising expectations" which some of our own national leaders encouraged with almost reckless abandon—both before Independence, and since.

For another, it was thought almost axiomatic, especially by those who were educated in Europe during the twenties and thirties, that an attack on chronic mass



poverty must begin with the distribution of production rather than with its organisation.

But it was too soon forgotten that in Europe, capitalist industry was already a going concern in the twenties and thirties. In other words, there was something to distribute or redistribute.

Thirdly, in a most populous democracy, you cannot expect the hungry masses to remain chronically enamoured of your personal charisma. Much less can you exhort them to wait for the results of production to enrich their lives. The problem becomes serious when there is an adult franchise and you have to get yourselves elected every five years. If you cannot offer them bread, they can at least have a vicarious pleasure of the higher-ups being gradually reduced to their position, through each five year plan. In other words, if you could not level everybody up, you could at least level everybody down.

Lastly, our rulers and planners did not begin their rule without a certain amount of hostility towards private business, which may have deserved it in part or in individual instance, but certainly not generally. Our freedom movement was aimed against a country which was an imperialist power. England was a capitalist country *par excellence* and it was England's capitalist class which ruled India. What could be more natural than to think that the Indian business class was no better than the British?

But in this process of reasoning, our politicians have made our poverty look easier of solution in a much shorter time than is the case. Economic statesmanship, on the other hand, would have consisted in plainly telling the masses of our people that our poverty was in fact a pretty huge problem, that there was no single sure-fire solution to it, and that it was not the socialist miracle, but years of toil and effort at greater and ever greater production which if at all could relieve its rigour.

I do not think any of our national leaders has done this plain talking since 1947. On the contrary, much of our talking, and nearly all our policy measures have laid

a disproportionate emphasis on the distribution of non-existing wealth than on its production, as an easy way out.

I turn now to the second point our Prime Minister made in her speech before the Indian Merchants' Chamber. She reproached the business classes for sniping at the public sector, warning them that whatever private industry there was in India, was due to the existence of a large public sector.

Now this can be argued. It is true that private industry has in many individual instances, done better than before because of the supporting role that Government's investment in social overhead capital has played. But it is stretching facts too far to suggest that private industry is the creation of the public sector. It is well known that private industry preceded the public sector by several decades.

But none of us has belittled the role and importance of the Government sector. On the contrary, the need for Government to take the lead in the acceleration of our industrial and economic progress was first emphasised by some of our business leaders themselves as far back as 1944 in their "Bombay Plan".

The younger generation may not perhaps have even heard of this document. And some of us may understandably have forgotten it; for it is now a quarter century old! But it showed that our business leaders were then way ahead of our Government by a full decade. Also, if you apply the proper price index to the Bombay Plan to give it a contemporary relevance, you will not fail to find that in itself the Plan was about as ambitious in size and design as all our three Five-Year Plans put together.

The point I am making is that neither "Planning" nor the "Public sector" was a post-Independence, Government discovery. The Bombay Plan clearly indicated that Indian business was as keenly and vividly aware as Government was, of the country's economic poverty and the urgent need to mount an attack on it.

I shall pitch it even higher. The authors of the Bombay Plan, all of them hard-boiled businessmen, had yet displayed through that document a long-range vision which is one of the vital hall-marks of statesmanship. The Bombay Plan was a pretty small document as compared to its more hefty and ponderous successors. But that is because it saw no reason to mince its words in sternly indicating what was the problem and what could possibly be its solution.

If the present mood and attitude of private business towards the public sector is not all that it should be, the reason is clearly to be found in the distressing and widening gulf between its promise and performance.

True, not all the 4,300 crores of rupees invested by Government so far in our strategic sectors should be treated by the same yardstick. A good part of this investment is truly infrastructural in the sense that its beneficial effects are widely diffused, and it would be wrong to reckon it as a success or otherwise in terms of a direct and monetary return it would yield.

If some of the businessmen have assessed Government's investment in social overhead capital in this rigid way, they are clearly wrong and unfair. But I like to think that many have not. Indeed, MOST of us are much rather concerned with the performance of what have been officially classified as 'commercial' and 'running' government undertakings.

As of now, the average rate of return they have yielded together on the total capital employed in them does not seem to have improved beyond 2.5 per cent. A few of them, like the Bhopal and Ranchi works, have long been frozen into a state of inactivity.

There is an impression which is getting popular in official circles, that private business is gloating over these failures of government concerns. Let me say that the impression is wrong and mischievous. On the contrary, business is worried over it, for the failure hits private

business just as badly and severely as it hits the total national economy. In other words, it pulls the average growth rate down.

Some of us are then naturally inclined to ask why, with the best of advantage in the world, the government sector industry should not live up to its promise. Let me repeat that we ask this only about the classified 'commercial' undertakings. I think we are fully justified in our concern over the matter. This is not "sniping" at the public sector as the Prime Minister suggests.

A couple of years ago, a research foundation in New Delhi had made a very interesting survey of the relative performance of government and private undertakings in the same field. The statistical material for the study was drawn from the RBI bulletins and from the Bureau of Public Enterprises. The study concluded that as regards the "running" concerns both in the government and the private sector, for every rupee invested in the government industry in preference to the private one, there was a notional loss of income of about 22 paise every year. I find that at a rough reckoning, this amounts to over Rs. 550 crores every year!

Rs. 550 crores! It can be the value of our entire medium-scale irrigation; or the capital cost of a complex of steel mills as large as Hindustan Steel!

It is things like these which raise the business executives' eye-brows. What justification can there be for the appalling difference in the relative performance revealed by the study I mentioned? The worst of it is that, unlike as in the private field, there is no risk in the government sector of the failures being liquidated!

Given this alarming capital-output ratio in the government industry as revealed in the study, I would leave it to you to work out for yourselves what would happen if the country were to decide to go totally socialist, nationalising the whole private industry sector. This is merely an

academic exercise; but sometimes I feel that we had better be ready with our arithmetic homework.

I cannot therefore help feeling that in the policy of extending the government sector, political zeal and passion and an urge to personal power have triumphed over statesmanship. The latter would have urged caution in the mad rush to increase the size of the sector. Statesmanship, ever aware of and alive to the ultimate goal of increasing the size of the national cake, would have taken a pause, and gone about improving the performance of the existing government industry sector, before thinking of doing "more of the same thing" in order to reach the commanding heights.

The Prime Minister also referred to the social responsibility of business and probably implied that it shouldered none so far. This, according to her, was reflected in the ugly form that industrial strikes had assumed. She also reportedly made a snipe at business being "obsessed" with profits.

As for the social responsibility of business, industrial strikes are a singularly inept example to illustrate businessmen's lack of it. For strikes are admittedly far uglier and often more prolonged in Government than in private sector units. These are facts, not opinions.

Apart from this, "social responsibility of business" has become such a favourite phrase with many of our leaders that, after using it in a speech, they think they are absolved from all responsibility to spell out what it means in concrete terms.

I do not, therefore, feel obliged here to meet this charge unless those who make it also substantiate it with concrete illustrations.

This brings me to the question of "profits". Maybe, our so-called "obsession" with them shows our lack of social responsibility !

Whether or not business is "obsessed" with profits, I would certainly urge that it is time the management of

government sector industry was literally obsessed with profits. Of course, I mean "real" profits not those which result from a monopoly position or from price manipulation. Of these, there are several examples today.

The fact of the matter is that, contrary to its popular image, private business activity is not "motivated" by profits. It is motivated rather by a driving urge to create the market by developing a product. Profits are a precondition to sustain this creative urge on a long-range basis. Even if the board of directors of a private concern were to consist of angels, it cannot ignore the rate of return on investment without going sooner or later into liquidation.

Since the government sector units are seldom threatened with this possibility, they carry on their business in terms of a set of precedents and procedures inherited from the civil service tradition.

I submit that in the long run, the success of Government's planning effort is tied up with its ability to make its own industry more than pay its way.

Even the success of its "socialist revolution" is going to depend, not on the size of its public sector, but on its performance measured in terms of only one yardstick, viz., its profitability.

Let me revert to my earlier observation: our initial datum, whether we are socialists or capitalists, is the same. It is, our age-old economic poverty. I hope to have established the point that poverty can be relieved only by producing more, not by redistributing what little we already have. The redistributive stage may or may not be needed later depending on how rapidly our production and income grows. The illusion of comfort created by redistributive measures can at best be temporary. At worst, and in the long run, it will have destroyed the mood for production itself.

I, therefore, appeal to our new leaders to rethink their order of national priorities in the light of the experience

of the past fifteen years. For as I see it, the "incomplete social revolution" is not going to be consummated by socialising and nationalising larger and larger areas of economic activity. The last decade has proved it.

True economic statesmanship in these circumstances would lie in a sincere admission that much of our earlier policy framework was misconceived, and that it needs to be refashioned to suit the exigency created by a virtual stagnation on our production front.

The economic result of our misplaced policy emphasis over the last ten years has been that, while we have steadily impoverished the rich and the upper classes with onerous fiscal levies, we have not enriched the poor who find the burden of life as heavy as before — perhaps even heavier, since their consumption packet has actually grown smaller since 1961.

I, therefore, like to think that our emerging leadership will grapple realistically with the challenge thrown up by our poverty, and will rule ever more with an eye on the size of our GNP. If it does this, the process of rising production will itself in time take the sting out of our distributive problem. Japan and Italy have proved it — not to speak of America.

This is not special pleading. This is economic statesmanship. This is about the only way to break through the barrier of poverty and provide everyone with a measure of economic comfort.

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

## A. D. Shroff

1899 — 1965

### 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 Subhas 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 sharebrokers and was also teaching advanced banking at the Sydenham College of Commerce & 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 established itself as a national institution within a short time.

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

**—A. D. Shroff**

**(1899-1965)**

**Founder-President,  
Forum of Free Enterprise.**

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