

THE PLACE OF FREE ENTERPRISE IN A BACKWARD ECONOMY

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CHAMBERS of Commerce and trades bodies in the country performed a very useful function in our economy in the past. It was through the Chambers of Commerce that the business community voiced its grievances and sought redress for them at the hands of the Government. The Governments of the past also attached great importance to the pronouncements made by them and tried to modify their policies to the extent possible to suit the requirements of trade and industry. It was as a result of this that even under an alien Government our commerce and industry made significant progress during the past quarter of a century. But alas, during the past years we have seen a complete reversal of these policies. Although the old procedure of inviting Ministers of the Government to the Annual Meetings and submitting to them the difficulties of trade and industry continues, little or no importance is attached to the pronouncements of the Chambers of Commerce, and the policies of the Government are shaped in complete disregard of, and often in detriment to, the interests of trade

and industry. I state this after due deliberation. As to the numerous representations made by this Chamber during the past two or three years, it has obtained redress hardly on any issue.

This is a significant matter, as it indicates a change in the attitude of the Government towards that section of the population which is traditionally in the pursuits of private trade and industry. Since the decision of the Government to establish a socialist economy in the country, this section has come in for quite an unnecessary measure of discrimination and has been discredited and discouraged at every stage. It is told that ours is now a socialist state and hence the private sector must subordinate its interests to the state plan and if need be liquidate itself in course of time. The statements made by Ministers of the Government are quite baffling and are many a time diametrically opposed to each other. Prime Minister Nehru, who is a great believer in democracy, said at the A.I.C.C. meeting in January last that he would prefer slow progress

to risking individual independence for rapid progress. On the other hand Shri T. T. Krishnamachari, the Finance Minister, has declared that the Second Plan would demand sacrifice and regimentation of our economy, and Shri M. M. Shah, Union Minister of Heavy Industries, said the other day that the public and private sectors could easily coexist without any kind of trouble for the next ten or fifteen years which means by implication that after that the private sector must expect the deluge.

Where do all these statements lead us? The private sector needs as much planning as the public sector. Is it possible for any group of entrepreneurs to go in for any big plan of industrialisation when the only lease of life you give them is ten to fifteen years? Needless to state that the policies of the Government act as a serious deterrent to the growth of any new industry in the private sector.

This serious situation has arisen as a result of the adoption of the socialist economy by our Government. Our Government claim that their policy has been endorsed by the country; which means that the vast majority of the unthinking millions of the country have understood the implications of this policy and approve of it. On the other hand there are thousands of thinking people in the country who are convinced that these policies will not only result in

raising the standard of living, but may well create a totalitarian regime. But nevertheless the determination of our Government to press forward with their socialist plans seems to gather strength as time goes on, as though socialism is the only panacea for our economic ills, and the private sector represents all the anti-social evils in our body politic.

The tirade against capitalism is wholly unfounded. Capitalism as it has shaped during the past quarter of a century is a far better method of developing the economic resources of any country, as well as obtaining the ends of social justice, whereas socialism is inevitably a tyranny. To say that the people of this country have accepted socialism as their goal is false. The large mass do not understand what they are being bamboozled into accepting. The view of those who understand its implications is being treated with contempt. It will be therefore right for us to dwell here on the merits and demerits of the two systems.

There was a time when the socialists were able to make damaging criticisms of the system of free enterprise. They pointed to the high degree of economic inequality it gave rise to, the insecurity of the worker, and the inadequate use of resources, causing persistent unemployment.

In those days there were no socialist systems with which

comparisons could be made. They were comparing socialist theory with capitalist practice. If socialist practice had been brought into the discussion, the balance might have been less unequal.

Nevertheless these were serious defects in the private enterprise system. But all have been largely or wholly abolished by the developments of the past quarter century. Perhaps the decisive event was the publication of Keynes' great book, the *General Theory*, in the early 1930's. This book showed how, by manipulation of the bank rate, direct investment activity, and deficit financing, it is possible for a government, while preserving private enterprise, to secure full employment and the maximum use of economic resources.

At the same time the doctrine of the Welfare State began to be put into force on a large scale. This greatly reduced economic inequality and secured the worker against the economic disasters of casual unemployment, injury, sickness and old age.

It is now possible for upholders of free enterprise to challenge the socialists and deny that their system is in any respect superior. Socialism in practice has not fulfilled its promise to bring about equality among men. In fact socialist societies show just as much inequality as capitalist societies. And the free enterprise system retains the inestimable advant-

age, in which no socialist system can rival it—that it is *free*. Far back in the nineteenth century, when these problems were first discussed, the opponents of socialism pointed out that that idealistic system would in practice turn out to be a system of slavery. They have been fully justified by the test of experience. Socialism is slavery, whereas free enterprise is free—free not only for the capitalist, but for the worker, and for the professional man and the intellectual.

But all this discussion applies to highly industrialised economies. What is its application to India, where industrialism is still far from fully developed? Until very recently it was the assumption of all on both sides that socialism has no application to backward economies. Marx himself, and all the other socialists, laid it down that the backward economies must be industrialised by free enterprise, and that when that process had reached a certain stage of completeness, socialism would take over.

The socialists believed that socialism requires a wealthy economy: it is no use distributing poverty. They also held that for socialism to be practicable, the public, including the workers, must be highly educated, and that cannot be the case unless the nation has been wealthy enough to afford a comprehensive educational system for a generation or more. If you try to impose socialism on a poor and ill-educated com-

munity, you inevitably get a dictatorship of the educated minority over the illiterate majority. The socialists were therefore arguing quite sensibly when they said that socialism has no application to backward economies.

But now we are faced with a new proposal, unheard of among the classical theorists of socialism. That is that socialism is to be introduced into backward countries straightaway, without waiting for free enterprise to lay the necessary economic foundations.

What becomes of Marx's warnings against this policy? They are ignored. But they will come true: we can see them coming true in India today. Under the form of democracy, we see growing up an economic dictatorship of the politicians and the bureaucracy; and the illiterate electorate is powerless to check it.

The socialist theorists go further. They argue that socialism can carry a backward country through the process of industrialisation quicker than free enterprise can do it. Look, they say, at our huge hydro-electric and steel plants: how could private enterprise ever undertake tasks of that magnitude?

Nobody questions that it is right for the state, with its vast resources, to undertake public utilities of that kind, and also

to manage and extend the railway network, the road system, and so on. But how far can that policy be pushed? Our Planners say that it must be pushed on until the state manages the whole economic system, and the statements of the Planning Commission and the Ministers show that they expect to achieve this in three or four Plans. They intend even to socialise agriculture.

But the argument is a fallacy. It is right for the state to build hydro-electric and steel works, because it is known that there will be a market for their products, and the magnitude of these enterprises places them, for the present, beyond the reach of private capital. In fact the state, with its vast resources, can jump ahead faster than free enterprise can. But that is true only where there is a known demand and therefore a clearly defined economic goal—so much steel, so many kilowatt-hours. Where the state takes it upon itself to supply all the vast variety of the wants of the public, it has no such advantage. In fact it suffers from great disadvantages as compared with private enterprise.

For the state cannot solve the problem of allocation of resources. Under free enterprise that problem is solved by the market, by public demand. Under socialism it is solved by bureaucratic decrees, and such decrees must often be wrong.

Socialism can be successful if it is devoted to some end other than public consumption and public welfare. If the socialist government sets before itself the goal of building up the biggest armaments industry in the world, it can do it, and beat the market economy at the game. For it just decides to allocate the necessary resources, and compels the workers to work on them, and neglects everything else. This is exactly what the socialist government in Russia has done. It has built a huge armaments industry, but has neglected agriculture, transport, housing, and the consumption goods industries generally.

But do we in India want an economy of that kind? Do we, with our philosophy of non-violence, with our foreign policy of non-alignment, wish to build up an armaments industry? Do we want the national effort and resources devoted to one particular favourite line of development, and everything else to be neglected? We do not. We want an all-round development of the economy with the aim of satisfying public demand. That is, we want a welfare economy, which must be a market economy.

A bureaucratic management cannot take the place of the market economy. It does not know, and cannot know, how to allocate resources. Only the market can tell that. And moreover, the bureaucratic type of management is less

efficient in detail than private management. I know there will be protests at this statement, but you have only to glance round at the state enterprises in Bangalore to see that, whatever else they may achieve, efficiency and economy are minor considerations with them.

I conclude that this new-fangled theory of socialism as specially suitable for backward countries is a huge mistake. The classical economists and the classical socialists were right — backward economies, such as India, must first be built up by free enterprise to the point where we can begin thinking about a different system. Socialism in India now is putting the cart before the horse; it is distributing poverty and obstructing development; and worst of all, it is putting into power a vast, irresponsible bureaucracy which will make either political or economic democracy impossible.

The complexity of planning for a vast population, now nearly 400 millions, by a central body, is so great that it is probably beyond human capacity. The endeavour of the entire educated public must be behind the task, and there is no reason why the immeasurable advantages of the time-honoured and well-tested methods of free enterprise should be discarded by our Government. The foregoing discussion clearly proves that it is a mixed economy coupled with the provisions of

the Welfare State, that will be best suited for the development of the country, whereas doctrinaire socialism will spell disaster for the entire mass of the people—the peasantry, the industrial workers, the business and professional men (if they at all survive) and the intellectuals.

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