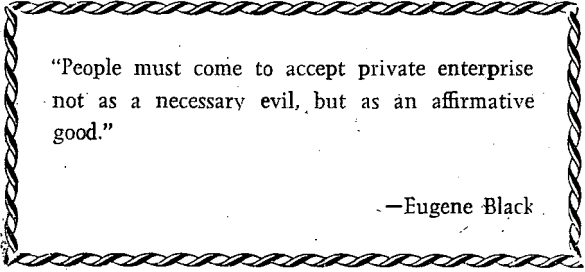


UNEMPLOYMENT & IMBALANCES IN THE ECONOMY

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

—Eugene Black

UNEMPLOYMENT AND IMBALANCES IN THE ECONOMY*

By

Dr. V. M. DANDEKAR

It is acknowledged by all concerned, that there is a large backlog of unemployment in the country. It was there at the beginning of the First Five-Year Plan and it is very much there at the beginning of the Fifth Five-Year Plan. There is considerable debate about its size but, I suppose, the existence of the backlog is not in dispute. I suppose, it is also not disputed that, over the years, the backlog has increased. If there is any doubt on this point, a look at some of the provisional data from the 1971 Census will be useful.

The population of the Indian Union increased from 439.2 million in 1961 to 547.4 million in 1971 showing an increase

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of 24.6 per cent in 10 years. We are told that the increase in the population has been less than what was expected, not so much because of a success of our family planning programmes and consequent fall in the birth rate but, because of a failure of the death rate to come down, according to expectations. There is thus something to be grateful about. Evidently, the God of Death is still on our side and has not quite abandoned us. Be it as it may. During the decade 1961-71, while the population increased by 24.6 per cent, the number of workers actually declined by 2.6 per cent: the number of workers recorded in the 1961 Census was 188.6 million; it declined to 183.6 million in 1971. This is undoubtedly a serious matter.

We are told that the decline in the number of workers between 1961 and 1971 Censuses is not real but that it is largely due to a stricter application of the definition of a "worker" in 1971 than in 1961. This seems possible and it appears that this has affected particularly the recording of the female workers. For instance, though the total number of workers declined by 2.6 per cent, the decline is really confined to the female workers. Between 1961 and 1971, the number of female workers declined by as much as 41.4 per cent. While 28.0 per cent of the female population in 1961 was recorded as workers, the proportion declined to a mere 13.2 per cent in 1971. Therefore, it seems likely that the definition of a "worker" has been understood and applied much more restrictively in 1971 than in 1961. Whatever the reason, it is obvious that the labour-force statistics of the female population cannot be readily compared between the 1961 and the 1971 Censuses. Let us, therefore, confine attention to the male population.

Between 1961 and 1971, the number of male workers did not decline. It increased from 129.1 million in 1961 to 148.8

million in 1971 which is an increase of 15.2 per cent. But, in the meanwhile, the male population increased by 25.2 per cent. Thus the growth in employment has been much smaller than the growth in population. The same may be seen otherwise: In 1961, 57.1 per cent of the male population was recorded as workers; in 1971, the proportion came down to 52.5 per cent. It is possible that, as in the case of female workers, a stricter application of the definition of a "worker" has also affected the recording of the male workers. There is no way to decide. A closer examination of the Census data when it becomes available may help. For the present, it will be useful to see the implications of the growth in the number of workers being lower than the growth in the population, supposing that it has not happened on account of an under-recording of the male workers in 1971. The male labour force in 1961 consisted of the 129.1 million men recorded as workers plus a certain number of the unemployed or under-employed which were not then recorded as workers. If we suppose that the labour force expanded at the same rate as the growth in population, that is by 25.2 per cent, the net addition to the male labour force during 1961-71 should be 32.5 million plus something. On the other hand, the number of male workers increased by only 19.7 million. The balance of 12.8 million plus something must be considered a net addition to the backlog of unemployment as it existed in 1961. Even if we make some allowance for the possibility of under-recording of workers in 1971, the conclusion seems unavoidable that during the decade 1961-71, there has been a net addition of at least 10 million workers to the backlog of male unemployment in the country.

Let us try to locate the failure firstly broadly between the agricultural and the non-agricultural sectors. Following the census classification of workers, we may divide the

workers into two classes, namely, (i) cultivators and agricultural labourers, and (ii) other workers. We may refer to the first category as the agricultural workers and to the second as the non-agricultural workers. Between 1961-71, the number of male workers increased by 15.2 per cent. Now divided into these two categories, it appears that between 1961-71, the number of agricultural workers increased by 19.8 per cent from 83.7 million in 1961 to 100.3 million in 1971, while the number of non-agricultural workers increased by only 6.9 per cent from 45.4 million in 1961 to 48.5 million in 1971. Thus clearly it is the non-agricultural employment which has failed to expand adequately. Indeed the expansion of employment in the agricultural sector must be considered remarkable. Between 1961-71, the number of agricultural workers increased by 19.8 per cent. Though this is less than the growth in the population, it is quite substantial considering the limited scope for expansion of employment in agriculture. Probably, in view of the failure of the non-agricultural sector to expand and absorb additions to the labour force, the agricultural sector has no alternative but to accept passively the surplus population that cannot be employed elsewhere.

The fact that, between 1961-71, the number of agricultural workers increased by 19.8 per cent while the number of non-agricultural workers increased by only 6.9 per cent means that the proportion of workers engaged in agriculture was larger in 1971 than in 1961. In 1961, 64.8 per cent of all the male workers were engaged in agriculture; in 1971, the proportion rose to 67.4 per cent. The proportion of workers engaged in agriculture serves as a good indicator of the stage of economic development of a country, with certain important exceptions. There are well-marked stages of development along this path. At the end of the first stage

of development, the proportion of population engaged in agriculture becomes constant, that is to say, it ceases to grow. Judging by the results of the 1971 Census, it seems that we have not yet reached even this stage of development. To reach this stage, requires that the employment in the non-agricultural sector grows at the same rate as does the population. This means that during 1961-71, the non-agricultural employment should have grown by at least 25 per cent; in fact, it grew by less than 7 per cent. In the second stage of development, the proportion of population engaged in agriculture begins to decline though the number engaged in agriculture continues to grow. It is at the end of the second stage that the number engaged in agriculture ceases to grow. This requires that all the net additions to the labour force together with any backlog of unemployment are absorbed in the non-agricultural sector. We have seen that during 1961-71, the net addition to the male labour force amounted to 32.5 million. Even if we neglect the backlog of unemployment existing in 1961, the non-agricultural sector should have absorbed 32.5 million additional workers during the decade. There were 45.4 million non-agricultural workers in 1961. To absorb 32.5 million additional workers would require 71.6 per cent growth in non-agricultural employment in 10 years. This is not fantastic; it requires an annual rate of growth of just 5.5 per cent. Unfortunately, we are taking about 10 years to achieve what could and should be achieved in one year.

What is the nature and composition of the non-agricultural employment and why has it failed to grow? We do not as yet have detailed data from the 1971 Census. But the break-up of the non-agricultural workers in 1961 will be useful to indicate the nature and composition of the non-agricultural employment in the country. It is as under:

MALE WORKERS — 1961

	<u>Million</u>
Livestock, Forestry, Plantations, etc.	3.3
Mining and Quarrying	0.7
Household Industry	7.4
Non-household Industry	7.2
Construction	1.8
Trade and Commerce	6.8
Transport, Storage and Communications	3.0
Other services	15.2
Total non-agricultural workers	
	45.4

Thus, the manufacturing industry accounts for one-third of the non-agricultural employment and this is equally divided between the household industry and the non-household industry. Another one-third of the non-agricultural employment is accounted for by the "other services" which include government service. The remaining one-third is accounted for by other sectors among which trade, commerce, transport, storage and communications are important. In the absence of similar break-up from the 1971 Census, it is not possible to say in which sectors employment has grown more and in which less during the decade 1961-71.

But considerable information is available regarding what we may call the organized sector of the non-agricultural employment. The organized sector accounts for about one-third of the non-agricultural employment. Information on employment in this sector is available from the Directorate-General of Employment and Training and from the returns under the Shops and Commercial Establishments Act. The

estimated employment in the organized sector in 1961 and 1971 is as under :

	Employment in the Organized Sector		
	1961 (million)	1971 (million)	Percentage increase in 1971 over 1961
Livestock, Forestry, Plantations, etc.	0.85	1.07	25.9
Mining and Quarrying	0.68	0.59	-13.2
Manufacturing & Electricity etc.	3.65	5.24	43.6
Construction	0.84	1.02	21.4
Shops and Commercial Establishments	2.07	2.93	41.5
Transport & Communications	1.08	2.32	28.9
Services	4.01	6.60	64.6
Total	13.90	19.77	42.2

Thus, during the decade 1961-71, the organized employment increased by 42.2 per cent. The employment in the manufacturing industry and in the shops and commercial establishments increased by about the same rate. The two seem to grow together and their combined rate of growth is 42.8 per cent for the decade which amounts to 3.6 per cent per annum. The increase in employment in construction, transport and communications has been much less; their combined rate of growth being 26.5 per cent for the decade which amounts to 2.1 per cent per annum. Thus for every one per cent increase in the employment in the manufacturing industry and shops and commercial establishments, the employment in construction and transport etc. seems to grow

by less than 0.6 per cent. The employment in the organized services has increased by 64.6 per cent. A large part of it is government-service which seems to grow autonomously and quite independently of what happens to the rest of the economy.

Of the employment in the organized sector, about 10 per cent is accounted for by women workers. As we are presently confining attention to the male working population, we should deduct the women workers from the organized sector as well. If we do this, the estimated male employment in the organized sector comes to 12.5 million in 1961 and 17.8 million in 1971. This is an increase of 42.2 per cent. But the organized sector accounts for only about one-third of the total non-agricultural employment and this, as we have seen, grew by only 6.9 per cent. It follows that during the decade, the non-agricultural employment in the unorganized sector must have declined; if we accept the 1971 Census estimates, it seems to have in fact declined by 6.7 per cent.

In summary, the main facts of the employment situation as I have presented them so far are as under:

MALE POPULATION

	1961 (million)	1971 (million)	Percentage increase in 1971 over 1961
Population	226.3	283.3	25.2
Workers	129.1	148.8	15.2
Agricultural workers	83.7	100.3	19.8
Non-agri. workers:			
Organized sector	12.5	17.8	42.2
Unorganized sector	32.9	30.7	-6.7

Thus, during 1961-71, the male population increased by 25.2 per cent; the number of male workers increased by 15.2 per cent; the number of agricultural workers increased by 19.8 per cent; the number of non-agricultural workers in the organized sector increased by 42.2 per cent; and the number of non-agricultural workers in the unorganized sector declined by 6.7 per cent. Of this, the increase in the organized sector is real; but the sector accounts for only about 10 per cent of the male labour force. The increase in the number of agricultural workers is substantial but one does not know how far it represents genuine growth of employment in agriculture; it is possible that much of the increase merely reflects the fact that the agricultural sector continues to accept passively the surplus labour which cannot be absorbed elsewhere. The decline in the number of non-agricultural workers in the unorganized sector may be partly due to a stricter definition of a "worker" in 1971 than in 1961. But at least partly it is also likely to be real. The unorganized sector consists mainly of the household industry and services. It is quite possible that the number of workers in these sectors has declined as a result of the expansion of employment in the corresponding organized sector.

Let me slightly simplify the employment data in order to get a better focus on the dimensions of the problem of employment in the country. The male labour force in 1971 amounts to 150 million workers. Of this about two-thirds that is 100 million are employed in agriculture. Of the 50 million non-agricultural workers, 20 million are employed in the organized sector and 30 million in the unorganized sector. Our first employment target must be to stabilize the number of agricultural workers at its present level, namely 100 million, and not to throw any more burden of employment on the agricultural sector. This means that all additions to

the labour force must henceforth be absorbed in the non-agricultural sector. We should expect the population to grow by another 25 per cent in the current decade 1971-81. Hence, in 1981, there will be additional 37.5 million male workers. If these are to be absorbed in the non-agricultural sector which presently employs 50 million workers, the employment in this sector must increase by 75 per cent in 10 years that is at an annual rate of 6.8 per cent. But, as we have seen, only the employment in the organized part of this sector grows while that in the unorganized part actually declines. Hence, it will be the organized sector which will have to absorb all the new additions of 37.5 million to the labour force plus a certain number of workers, say about 2.5 million, which will be thrown out of employment in the unorganized sector. The organized sector at present provides employment to only 20 million workers. If it is to absorb 40 million additional workers during 1971-81, it will require an increase of 200 per cent in 10 years which amounts to an annual rate of growth of 11.6 per cent. If we consider the industrial employment as the key element in the expansion of the non-agricultural employment in the organized sector, this means that industrial employment must increase at the rate of 11.6 per cent *per annum*. This is not impossible and some other countries have achieved it. But, as I have already mentioned, during the past decade, we have been able to expand industrial employment only at 3.6 per cent *per annum*. That is the gap between our performance and the needs of our economic development.

This is not a situation which can be corrected by means of "crash programmes" of employment. But "crash programme" is the style of the day. The latest crash idea is that the factories should work 7 days of the week. At present

they work 6 days of the week. If they work 7 days of the week, production and employment will immediately expand by 16.66 per cent, which is, of course, double of 8.33 per cent. The arithmetic is simple. But it belongs to the same category as of the suggestion once made that, if we have a food deficit of about 7 per cent, all that we need do is to miss a meal a week; if the food deficit is larger, say 15 per cent, as it might turn out to be this year, we should of course miss two meals a week. That is simple too.

Less crash than the crash programmes are the short-term measures. In the present context, they are aimed at a fuller utilization of the industrial capacity by means other than working 7 days a week. The main idea is that, in the short-run, production and employment can be expanded considerably without much additional investment provided steps are taken to ensure fuller utilization of the existing industrial capacity. The reasons for the under-utilization of the existing industrial capacity are many and complex. We may conveniently divide them into two categories, namely, those which are internal to a given plant and those which are external to it. The principal internal circumstance inhibiting the full utilisation of production capacity of a plant is that the machinery and equipment of the plant is not balanced and that, therefore, there arise serious bottlenecks. Under these circumstances, the definition of the capacity itself needs to be revised. Among a set of inter-related machines and equipment, each has a certain production capacity. The capacity of the plant is determined not by the maximum but the minimum of these, like the strength of a chain is determined not by the strongest but by the weakest of its links. To improve the utilization of the under-utilized machines and equipment, the capacity of other machines and equipment has to be supplemented and strengthened. Hence a

fuller utilization of the so-called existing capacity cannot be ensured without supplementary investment which often turns out to be not quite marginal. The reasons why such imbalances in the machinery and equipment, including crucial skilled labour, of a plant occur and exist are many. Principally they are: plain faulty production planning which is not a monopoly of the public sector; choice of technology inappropriate to the size and scale of operations; and purchase and installation of expensive imported machinery and equipment, not because it was immediately needed but because it was available. To correct the existing imbalances is, in a sense, building on the foundation of such faulty decisions. This may have to be done in order to salvage bad investments already made. But the additional investment needed may not be quite marginal and the measures needed may not be quite as short-term as is often believed.

The external reasons for the under-utilization of the capacity of a plant are firstly shortages of inputs and supplies and, secondly, lack of demand for its output. The inputs include raw materials, power and transport. The demand for the output of an industry may have two components: Inter-industry demand, that is the demand from other industries, and the final consumer demand. The latter will have to be considered separately. But the shortages of inputs such as raw materials, power and transport on the one hand, and lack of inter-industry demand for the output on the other, are nothing but symptoms of imbalances in the production capacities existing in different industries. If one industry suffers from shortages of inputs, it means that the production capacities are inadequate in some other industries, including agriculture, which supply the inputs of the given industry. Similarly, if one industry suffers from lack of inter-industry demand, it means that production capacities are relatively

inadequate in some other industries to which the given industry supplies its output as inputs. The imbalances in the production capacities of different industries are not easy to remove and any measures to remove them can hardly be considered short-term. But, in an economy with limited total production capacity, such imbalances and consequent wastage of capacity is undoubtedly a serious matter. I shall later return to its consideration.

Another reason for the under-utilization of capacity in some industries is the lack of final consumption demand for their output. Here is a paradox: While a large part of the consumer demand remains unsatisfied, there exist, side by side, production capacities in some industries for which there is lack of consumer demand. This is another case of imbalances in the economy: but now it is not a case of inter-industry imbalance; rather, it is a case of imbalance between the deployment of production capacity and the consumption needs. This imbalance is even more serious than the inter-industry imbalance and can hardly be corrected by short-term measures. Therefore, for a while, I shall postpone its consideration.

Yet another reason, often mentioned, for under-utilized capacity is the industrial labour unrest. It is, therefore, suggested that urgent steps should be taken to discipline the industrial labour and curb the industrial unrest. I do not know whether this is suggested as a short-term or a long-term measure. Industrial employer in the country has always been powerful *vis-a-vis* labour and, so long as there is a large army of the unemployed, he will remain so. But, in spite of the army of the unemployed, industrial labour is getting increasingly better organized and improving its bargaining position *vis-a-vis* the employer. This is a struggle to decide how the value added in industrial production will be divided

between profits and wages and shared between the employer and the worker. This is a class struggle in the classical sense of the term. The warring classes are, the entrepreneur, the owners of capital and the high level technical and business management on the one hand, and the worker on the other. It is said that unless there are reasonable profits for the entrepreneur, reasonable interest and dividends to the owners of capital and reasonable salaries, allowances and fringe benefits to the managerial class, there would be no incentive among them for increased production. I must take it that this is true. But then it must be equally true that, unless there are reasonable wages, to the workers, there would be no incentive among them either, for increased production. The trouble arises because there is no agreement as to the reasonableness of rewards so that the rewards which the two classes respectively consider as reasonable and necessary, together add up to more than the total value added in the industry. In the circumstances, it is obvious that the class conflict can do only harm to the industrial production. Both parties seem to have power to cut down, if not stop altogether, the production and both seem to be engaged in doing this without thought of what happens to the whole economy and to the large mass of the unemployed. There can be no doubt that the country cannot afford this class conflict at the present juncture but one does not know how to resolve the conflict on the Forum of Free Enterprise. Free enterprise cannot be confined to the entrepreneurs, owners of capital and the managerial class; it must extend to the workers as well. You will be glad to know that, contrary to popular notions, much more than the employer class, it is the workers and their unions, who are to day operating on the Forum of Free Enterprise. Collective bargaining is part of the game. We cannot therefore blame the industrial unrest on the workers

alone. It is a conflict of interests which cannot be resolved on the Forum of Free Enterprise.

This question is not unrelated to the problem of imbalances in the economy to which I have earlier referred. I shall later return to these questions. For the present, let me say that I have no objection in principle to any crash or short-term measures designed to expand production and employment through a fuller utilization of the existing production capacity — provided they are feasible. But, for reasons already explained, I do not think that much can be achieved by these means. Moreover, if we concentrate too much attention on such short-term measures, as we are prone to do, we are likely to overlook the more fundamental imbalances that have developed in the economy: imbalances between production capacities of different industries and imbalance between the deployment of the production capacity and the needs of consumption.

Before I turn to these more fundamental problems, let me refer to another strain in the prevailing thinking on the problem of unemployment. As already mentioned, during 1961-71, the employment in the organized manufacturing industry increased by 43.6 per cent. But, during the same period, the industrial production increased by about 75 per cent. The question naturally arises as to why and how, while industrial production increased by 75 per cent, the industrial employment should increase by only 43.6 per cent. I must confess that I am myself puzzled by this divergence in the growth of production and the growth of employment and cannot readily answer the why and how of it without an industry-by-industry examination of the data on production and employment. But, two possible explanations may be offered *prima facie*: Firstly, the composition of the industrial

production may have changed and the new composition may have proportionately less employment potential than the previous composition. Secondly, within an industry, technology may have changed and technology with much less employment potential may be much more common now than before. Both explanations are plausible though I doubt whether within the span of 10 years, such changes in the composition of the industrial output and the technology have occurred as might explain the large divergence between the growth of industrial output and growth of industrial employment. Let us however proceed on the assumption that this has in fact happened.

It is then suggested that, with the same total industrial investment as was done during 1961-71, we could have increased the industrial employment much more if we had chosen the right composition of the industrial output, that is the right industry-mix and the right technology or technology-mix. If a change in the composition of the industrial output or industry-mix and a change in the technology have in fact reduced the employment potential of industry, it follows that an appropriate choice of the industry-mix and the technology-mix should improve the employment potential of industry. Therefore, the propositions deserve a close examination.

The choice of an industry-mix is the choice between different industries such as cement, steel, sugar, paper, textiles, etc. How does one make this choice? In the present context, the right and appropriate choice is, of course, the one which maximizes the employment. This is in fact what is suggested. Employment potential of different industries is compared on the basis of their capital-labour ratios, namely the amount of capital needed to employ one worker. If the sugar industry

requires less capital per worker employed than say the cement industry, we should produce more sugar than cement. This is how the industrial policy, whatever it is, is sought to be given an employment-orientation. In the process, one naturally comes up with cases of industries which appear to be essential but which require much more capital per worker than many other industries. With the new employment-orientation, every industry has to be justified on grounds of its employment potential. Hence, the discovery is made that the employment potential of an industry is not merely the direct employment it provides but also all the employment it indirectly provides in other industries with which it has backward and forward linkages, that is to say in those industries the output of which it uses as its inputs and in those industries to which it supplies its output as their inputs. It makes interesting reading when each industry thus separately seeks promotion on grounds of its total employment potential — direct and indirect. But, put together, it makes little sense because each industry is related to practically every other industry by means of such backward and forward linkages and practically the entire employment in the economy can be attributed to any single industry — one *per cent* direct and 99 *per cent* indirect. The fact of the matter is that employment-orientation does not help make a choice of the industry-mix because the purpose of industrial production is not to provide employment *per se* but to produce something to meet the present and future needs of the population which are quite independently determined.

The choice of technology is more complicated. The suggestion that, with the same total investment, we could have employed many more persons if within each industry we had adopted the more labour intensive technology is, of course, literally true. If two persons are employed to do the job of

one, certainly more persons will be employed. But in the process the danger is that everyone may be employed full time from morning to evening, seven days of the week, 52 weeks of the year, and nevertheless no one can earn a minimum living and the economy is condemned to a low level of stagnation and progressive deterioration. The proposition that, for each economy, there exists a unique technology which is appropriate to its factor endowment in capital and labour is an over-simplification. Firstly, capital and labour are not two homogenous entities which can be readily allocated between different industries and transferred from one to another. Secondly, even if capital and labour were two homogenous entities, the optimum solution does not necessarily lie in trying to equalize amounts of capital per worker in different industries. The rates of substitution between capital and labour are different in different industries and are different at different levels of output of the same industry. These have to be taken into account while deciding on the allocation of additional investment between different industries. It is also not true that there exists one single technology in any given industry at any given time. Different plants with quite different technologies, as represented by the capital-worker ratios, are known to co-exist side by side and those employing older or less efficient technologies generally survive by accepting lower returns on their capital and labour. New investment in an industry has to take into account the range of technologies presently in use and the returns to capital and labour they make. In the midst of these, it is not possible to establish and sustain a technology which offers very low and unacceptable returns to its capital and labour, unless of course it is heavily subsidised.

But these difficulties only illustrate the complexity of the problem. The proponents of labour-intensive technology are

right about one thing, namely the focus on employment, the insistence that every one must be gainfully employed. That insistence cannot be brushed aside by the complexities of technological choice. But the adoption of more labour-intensive technology by itself provides no guarantee that every one will be employed. That every one must be gainfully employed is an independent principle: it must be independently established, accepted and pursued.

We must, therefore, return to the more fundamental aspects of the problem of employment. We should begin with the problem of choice of the industry-mix or the composition of the output. In planning terminology, this is the problem of fixing targets of production of different commodities. In the final analysis, these are to be determined by the present and future needs of consumption of the population. The Planning Commission usually begins by estimating the present consumption and projecting to a future date on the basis of estimated increase in the *per capita* national product or national income. In the new context, with its concern for the poor, the needs of consumption must be determined on the basis of a certain national minimum to be assured to everybody. Given these, the natural resources, capital and labour of the country have to be so deployed as will ensure that the national minimum is assured to everybody as early as possible and at the same time a basis is laid for raising the minimum as fast as possible in the future. The solution to this allocation problem will in general not lead to an equalization of the capital-worker ratios in all industries or even in choosing the most labour-intensive technology for each industry. The solution may require the choice of highly capital-intensive technologies with high capital-labour ratios in some industries and highly

labour-intensive technologies with low capital-labour ratios in some other industries. Whatever the solution, that will be the appropriate choice of the technology-mix.

But the planning for the production of necessary commodities is not enough to ensure that everybody gets the desired minimum. To see this, we may divide the total national expenditure into two parts: (i) private expenditure that is private consumer expenditure plus private capital formation; and (ii) public or socialised expenditure that is socialised consumption plus socialised capital formation. The private expenditure is financed from private or personal incomes. Given the incomes, consumers buy their needs from the market or the distributive system at given prices. Given the incomes and the prices, the consumers decide what to buy, how much to consume and how much to invest. There cannot be much planning in this area except to assure to everyone the income necessary to buy the nationally desired minimum. Therefore, assuring everybody the nationally desired minimum is nothing but assuring everybody a minimum income at which he can secure, if he so desires, the nationally desired minimum at the given prices. Given the necessary income, if someone decides to spend it otherwise than is considered desirable, there is not much that can be done about it. In this sense, the consumer is sovereign.

The need for public or socialised expenditure arises for two reasons. Firstly, private individuals cannot undertake certain types of desirable expenditure such as on roads, communications and defence. This has to be socialised. Secondly, certain types of expenditure such as on education, and public health, though it can be incurred privately, private individuals do not necessarily undertake to do it even though it is regarded desirable and they have the necessary incomes. Such expenditure has also to be socialised. The public or the socialised

expenditure has to be financed from the public funds which ultimately must come from out of personal incomes. Hence, given the capacity to produce the desired and chosen composition of output, two essential conditions must be satisfied if what is or can be produced is to be consumed. Firstly, a certain part of the personal incomes has to be socialised in order to finance the socialised consumption. Secondly, the personal incomes, after tax, subsidies, and transfer payments, have to be so distributed as to ensure that everybody has the minimum income necessary to meet the nationally desired minimum needs. In the absence of these two conditions, planned production fails to materialise even if resources and capacity exist. In my opinion, this is what has happened in the past. Too much attention has been paid to planning, regulating and channelising production along the desired path while too little attention was given to ensuring that what was or could be produced would also be consumed. The planned production is thus not matched by effective demand. Under the circumstances, production deviates from the planned path. It gets oriented to the market, as it must. The plan and the consequent regulation of production become only hurdles and obstacles which must be jumped over — and jumped over they are with the costs charged to the economy. The choice of output-mix gets distorted. The choice of technology is made in order to create a small, exclusive high-income sector. The entire industrial production gets geared to the growing incomes and needs of this sector. This is what the organized sector today is. It consists of the entrepreneurs, the owners of capital, the managerial class and the organized workers, ably led by their unions. Together they constitute only about 10 per cent of the labour force. But they have monopolised the entire economic apparatus and are using it mercilessly to their own selfish ends. The facade is provided by the socialist planning.

The drama enacted is one of class-conflict, and the march of industrial workers on the socialist path. The fact is that a small organized sector, aided and abetted by the politician, is busy feathering its little nest to the exclusion of the unorganized masses.

If on the other hand, effective demand is created for the consumption of what is regarded as the nationally desirable consumption, production gets almost automatically geared to fulfil the demand. This requires an assurance of a minimum income to everybody. It is on this that the case for full employment is based because if minimum income is to be assured, it is best to assure it through gainful employment. Full employment is, therefore, necessary not only because it can maximize production through fuller utilization of the labour force, but because it is a necessary condition for the production to proceed on the preferred path. Once the conditions of effective demand are fulfilled, the production may be left to the market forces or, if you will, to the Forum of Free Enterprise. Then, the production planning and the choice of technology become technical matters which are probably better looked after by the entrepreneural and the managerial class than by the bureaucrat and the politician. Let, therefore, the government concentrate on creating effective demand for the nationally desired consumption by acquiring command over the necessary part of personal incomes to finance the needed socialised consumption and to assure minimum incomes by offering gainful employment to all those who cannot at present be employed in the normal production apparatus. But this requires, that the small organized sector, which today constitutes only 10 per cent of the labour force, accepts, for some time to come, lower standards of living; that the entrepreneurs and the owners of capital accept lower profits; that

the managerial class accepts lower salaries; and that the workers accept lower wages. Let the Forum of Free Enterprise make this its platform. Then I shall plead that the production be left to the productive forces in the economy, unfettered by the bureaucracy and unexploited by the politician.

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

A. D. Shroff

(1899-1965)

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.

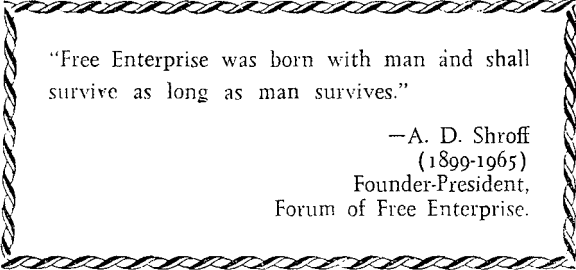
He was associated with promotion of planning in the country even before Independence. When Netaji Subhas Chandra Bose was the President of the Indian National Congress, in 1938 he appointed a National Planning Committee with Pandit Jawaharlal Nehru as the Chairman, Mr. Shroff was one of the members of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



“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.

Have you joined the Forum?

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

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

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-400 001.



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