

FREE ENTERPRISE IN INDIA AND FREEDOM

by

**A. D. Shroff
Murarji J. Vaidya**



FORUM
OF FREE ENTERPRISE

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

- **A. D. Shroff**
Founder-President
Forum of Free Enterprise

Introduction

It was indeed a very happy coincidence that THE TIMES OF INDIA on 30th March 1956 published two fine articles captioned “Free Enterprise in India” by A.D. Shroff and “Free Enterprise and Freedom” by Murarji Vaidya. Both of them had similar thoughts in view, viz., both alluding to the tremendous contribution made by the private sector to the economic development of the country in the pre-Independence era and few years thereafter. They also laid stress on the need for retaining our hard earned democratic way of life and not bartering it away for the sake of speeding up of economic development. This was in the context of the Government of India adopting the socialist pattern of society as its credo for the Second Five-Year Plan. This was sought to be achieved by assigning the commanding heights of the economy to public sector considerably circumscribing the role of the private sector.

Reproduced below are some concerns expressed by Mr. A.D. Shroff in his article:

“Two broad implications of this decision are obvious, viz., (i) that the State will assume increasing control and ownership of the means of production, and (ii) that the resources available to the Private Sector will be gradually diverted to the Public Sector. Government have already taken certain measures, both fiscal and

others, to work towards the attainment of this objective.”

“After considerable cogitation, I have come to the conclusion that the most urgent need of the Private Sector is to organize on a country-wide basis a campaign to educate the public about the mistaken policy of the ruling party and to satisfy the country that the attempt to establish a Socialist State is not calculated to serve the best interests of the hundreds of millions inhabiting this country. The stage has been reached when thinking people in the Private Sector, if they wish to serve the large interests of the country, cannot keep their thoughts and feelings to themselves in the fear of incurring the displeasure of the ruling authorities.”

“A concrete plan for the rapid development of the country should be drawn up and presented to the country. This plan should be drawn up on the basis of mixed economy. It is generally accepted that in order to attain a speedy development of the country’s economy in all its aspects, every section of the community must play its own part. The most imperative need today is increased production and, therefore the plan must point out how such increased production can be attained in the shortest possible period of time by utilization of the brains, energies, resources and experience of everybody in the country, whether he artificially happens to be placed in the Private or Public Sector.”

Mr. Murarji Vaidya's article underlines the implications of this policy on the democratic way of life.

"Ideologically, it would indeed be a consummation highly to be cherished that democracy and a socialist pattern of society should be developed simultaneously in a country where the fruits of freedom and of economic development have just begun to be tasted."

"The question, however, is whether in the context of the existing economic, social and political circumstances in the country, such a simultaneous development of these plans is feasible without running the risks which appear to be inherent in a rapid advance on all the fronts. And what are these risks? It has been the experience of the countries in Eastern Europe including Russia that Socialism, which later developed into Communism, has sounded the death-knell of democracy and of individual liberty."

"The risk before our country therefore is that democratic processes and means, we may achieve in our anxiety to evolve a Socialist Pattern by neither. At best, perhaps, we might achieve one at the expense of the other. The fact that this risk exists has been proved by the history of Eastern countries of Europe."

"It can hardly be denied that having taken several generations for the achievement of political freedom, we should value democracy, freedom and liberty of the individual citizens as of far greater basic value than the

pace at which the economic development had taken place. Having granted this, can it be denied that it would be unwise to run the risks which I have indicated?"

These two articles spurred thinking among a few concerned citizens. The first to respond was Mr. Farrok Mulla who thought that it was an excellent idea for men of standing like Mr. Shroff to espouse the role of the private sector in the correct perspective before the country. He offered his full cooperation and support in this endeavour.

Mr. Mulla had a formidable reputation in the field of public relations. He was the Chief of Public Relations of Tatas for a long time, He was also the Hon. Treasurer of the Forum of Free Enterprise since its inception and was its Vice-President till 1978. The Forum owes a deep debt of gratitude to him for his rare commitment and dedication for over two decades when it had to counter misguided criticism and opposition, both from official and business sources.

The Forum is delighted to reproduce the above referred articles by Mr. A.D. Shroff and Mr. Murarji J. Vaidya, the main founders of the Forum. What they foresaw has largely come true. Undoubtedly Forum's campaign has in some way led to the liberalisation of the economy and the assignment of a larger role to the private sector after 1991. The results of these are so evident.

Nonetheless instead of effective regulation and more vigorous implementation of the plethora of regulations which we have on our statute books, and appointing as regulators individuals of high acumen, courage of conviction and great probity, we see growing intrusion and intervention by the State in the domain of private business and industry. A very disturbing trend indeed.

This is the birth centenary year of the late Mr. Farrok Mulla and it is in the very fitness of things that his family has so kindly agreed to commemorate it by sponsoring two booklets, (the other one is a reprint of a lecture delivered by the late Justice M. C. Chagla), to refresh the public at large on what needs to be done to cleanse public life in general, particularly in the light of the malaise of corruption and misgovernance we see around us. We are indeed grateful to his daughter Mrs. Mackoo Malgham and his son-in-law Mr. H.H. Malgham for their spontaneous gesture.

Mumbai
1st January 2011

Minoo R. Shroff
President
Forum of Free Enterprises

FREE ENTERPRISE IN INDIA AND FREEDOM

I

Free Enterprise in India**

by

A. D. Shroff

The role of Private Enterprise in the future can be assessed only in the context of Government's decision to establish a Socialist State in this country.

Two broad implications of this decision are (obvious, viz., (i) that the State will assume increasing control and ownership of the means of production, and (ii) that the resources available to the Private Sector will be gradually diverted to the Public Sector.

Government have already taken certain measures, both fiscal and others, to work towards the attainment of this objective.

Government claims that their policy has been endorsed by the country which means that the vast

*** Reproduced from "The Times of India", issue dated 30th March 1956, with kind permission of the editor.*

majority of the unthinking millions of the country have understood the implications of this policy and are satisfied that it will ultimately lead to a substantial increase in the standard of living of the masses. On the other hand, there are thousands of thinking people in the country who are honestly convinced that from a long-term point of view this policy will not only not help the country in achieving a rapid and all sided economic development, but may well hamper the attainment of this objective which is so anxiously desired by every section of the community. To take, however, a realistic view of the situation, everyone must be prepared to concede sincerity and honesty to the Ruling Party and their determination to pursue this policy till they realise that their philosophy is a good horse in the stable but may well prove an arrant jade on the journey.

After considerable cogitation, I have come to the conclusion that the most urgent need of the Private Sector is to organize on a country-wide basis a campaign to educate the public about the mistaken policy of the ruling party and to satisfy the country that the attempt to establish a Socialist State is not calculated to serve the best interests of the hundreds of millions inhabiting this country. In my daily contact with people engaged in trade and industry, big and small, I find that in recent months a large number of people have been seized with a feeling of despondency. A number of them are expressing a feeling whether it

is at all worth while for them to make any additional commitments and, in some cases, even whether it would not be in their interests to reduce their existing commitments.

As a result of the cruel operation of Section 23-A of the Indian Income-tax Act, a number of small people who started in a small way and have by their personal effort and sacrifice built up over a period of years successful businesses have been trying, to my personal knowledge, to dispose of their businesses. I have also come across some people with a fine record of achievement over the last generation or two, who are seriously thinking of migrating from this country before their anticipated fears of the worse coming in future materialise. Whilst fully appreciating the feelings of such people in the prevailing situation in the country, I am definitely of the opinion that this is a defeatist mentality and it can only result in the suicide of the Private Sector in the not very distant future.

From the country's point of view, this fast-diminishing morale amongst that section of the community which has made no mean contribution towards the development of the country's economy, cannot but be a matter of concern to everybody interested in elevating the economic status of India. I suggest, therefore, that the educative campaign should be organized on the following lines:—

There is a widespread lack of understanding as to what the Private Sector means. People interested in propagating the Socialist faith have been mischievously representing the Private Sector as consisting of a few “tall poppies” comprising a few hundred people who today happen to be responsible for the management of some large-scale industries. It is not generally appreciated that the Private Sector consists of all Agriculture, large, small-scale and cottage industries and the whole range of Trade, including import, export, wholesale and retail. Even in the range of industrial activity, according to the estimates recently made by the National Income Committee, the value of nett output of “Small Enterprises” in 1950-51 was of the order 910 crores while that of “Factory Establishments” it was around 550 crores. Similarly, the number of workers employed in “Small Enterprises” in 1950-51 was about 11.5 millions as against three million workers in “Factory Establishments.”

Throughout the length and breadth of the country there must be millions and millions of people engaged in retail distributive trade, either as individuals or as small partnership firms, who constitute a very important part of the Private Sector. It is, therefore, very necessary that the country at large should be made aware of what constitutes the Private Sector. Much of the excitement and fury that is often displayed on public platforms in deliberate misrepresentation of the Private Sector could

be dispelled and the correct perspective established if the meaning of the Private Sector was made known in a sufficiently intelligible form to the country.

The achievements of the Private Sector hitherto in sustaining the daily economic life of the 365 millions and in the gradual development of trade and industry providing employment for an increasing number of people should be presented to the country in graphic and pictorial form for the average man and woman in the country can be made to understand the vital necessity of the uninterrupted continuance of these activities with the potential risk involved in disrupting the economic life of the country if the normal functioning of the Private Sector is disturbed by the implementation of the Socialist policy.

The stage has been reached when thinking people in the Private Sector, if they wish to serve the large interests of the country, cannot keep their thoughts and feelings to themselves in the fear of incurring the displeasure of the ruling authorities. The greatest danger, to my mind, today, is that those who have pronounced their faith in the implementation of Socialist policies have all the advantage of propagating their gospel through the Central and Local Legislatures and through the countrywide organization of the majority party. It is an unfortunate tragedy that with few exceptions even a large section of the press is giving

the widest prominence to the views of the majority party, if not actually applauding them. The continued and ceaseless propaganda against the sins of omission and commission of the Private Sector is producing an impression, in the absence of any attempt to counter this propaganda, that the whole country has tacitly accepted a policy which will ultimately lead to the complete elimination of the Private Sector. For instance, the foul campaign of vilification against the entire management of Life Insurance business to bolster up Government's decision to nationalize life Insurance has created a feeling of distrust for all management of Private Enterprise.

Bereft of all sense of proportion, responsible spokesmen, both of Government and the majority party, have exploited mismanagement by a small number of people as an excuse for a sweeping condemnation of everybody concerned with the management of Life Insurance in the country. I believe, therefore, that unless the Private Sector realises the danger of such unfair tactics on the part of its detractors and counter such propaganda by placing facts in their correct perspective before the country, this process of slaughtering the innocents will gather momentum which, in course of time, would be impossible to resist.

It is absolutely imperative that thinking people in the Private Sector should make an organized endeavour to

establish amongst all sections the highest standards of integrity and efficiency. However much we may disagree with Government in their policies and actions, everybody engaged in the Private Sector must recognise it as their elementary duty to respect the laws of the country and to pay their dues promptly without any attempt to avoid their obligations. Organized bodies like Chambers of Commerce and various Trade Associations should insist on the observance by their members of rules of conduct which would not be open to challenge. Employers should cultivate relations with their employees in a progressive and liberal manner so as to ensure the identity of interests between the two.

The Private Sector should also be prepared, as far as possible, to co-operate wholeheartedly with Government in all measures are satisfied, intended to promote national interests. The country must be given concrete proofs of the preparedness of the Private Sector to sincerely act in the above mentioned directions if the capacity of the Private Sector to serve the country is to be made generally acceptable to the country.

A concrete plan for the rapid development of the country should be drawn up and presented to the country. This plan should be drawn up on the basis of mixed economy. It is generally accepted that in order to attain a speedy development of the country's economy in all its aspects, every section of the community must

play its own part. The most imperative need today is increased production and, therefore the plan must point out how such increased production can be attained in the shortest possible period of time by utilization of the brains, energies, resources and experience of everybody in the country, whether he artificially happens to be placed in the Private or Public Sector.

Mere ideologies and dogmatic assertion of preconceived ideas should not be allowed to stand in the way of the organized utilization of all available talent and resources in the country. If real progress is to be achieved, there is an obvious demarcation of functions between the State and the Private Sector. Apart from the obvious and elementary duty of maintaining peace, order and stability, it is the function of Government to provide the essential prerequisites for an orderly progress. These prerequisites are a quick and countrywide spread of education, essential health services, clearance of slums, opening of the country through district and trunk roads, rail road and river transport, and larger provision of postal, telegraph and radio services.

There is a tremendous field for the State to devote its energies for making our agriculture more profitable and reliable through extension of irrigation facilities, use of better seeds and fertilizers and more modern methods of intensive cultivation. Provision of warehousing, marketing and credit facilities in our rural

areas will certainly result in enriching, over a period of years, 70 per cent of our people who depend for their living on agriculture.

It will thus be seen that if the State confines itself for the next fifteen to twenty years to an adequate fulfilment of these functions, it will not only have enough on its hands but will make a substantial contribution towards the economic development of the country. In attempting to extend its scope of activities, the State is not doing justice to its own obligations.

To give a few illustrative experiences, the Postal services are so inadequate that even in a city like Bombay, the General Post Office would not accept more than 500 registered letters per day from any party. Wherever one travels throughout the country, it is heart-rending sight to see the manner in which third-class passengers are packed like sardines on our railways. Railway transport still continues to be a serious bottleneck, constituting a handicap to the free movement of goods and causing artificial shortages at different places in the country. The terrific congestion at Docks in important port-towns holds up both receipt and despatch of goods for inordinate length of time.

At an important air-port like Calcutta, three months ago, the Air-office was short of luggage tickets and it is reported that recently a Telegraph Office in Bihar ran short of telegraph forms.

If the State, therefore, concentrates its energies in providing these elementary prerequisites at a speedy rate, it will succeed in creating both an atmosphere and scope for the Private Sector to do its job in bringing about a rapid economic development. It is undoubtedly true that fiscal measures of recent years have considerably denuded the Private Sector of its financial resources and the State, therefore, will have to make available adequate finance on suitable terms to safeguard the interests of the general tax-payer. Otherwise, with the background of experience and trained personnel, the Private Sector should prove capable of undertaking a large-scale industrial development of the country.

However limited the scope left to the Private Sector and the uncertainty about its continuance, whatever be the handicaps and disabilities imposed by fiscal and other measures, the Private Sector must still be prepared to energetically continue its own allotted task, and I have no doubt that it will satisfy the country of its capacity to serve the country in future as it has done in the past.

In conclusion, I only wish to sound a note of warning that in a country like ours, with one dominant political party and with no effective organized opposition, the thin borderline between democracy and totalitarianism can soon be crossed. There is already evidence of totalitarian thinking at least in the economic field and

unless public opinion becomes more vigilant, we may lose our most cherished possessions, viz., the freedom to think and the freedom to criticise.

II

Free Enterprise and Freedom**

by

Murarji J. Vaidya

The approach of the Planning Commission and of the Government to the question of the scope for and sphere of Private Sector in the Second Five-Year Plan is evident from the first chapter of the draft outline.

It has been largely conditioned by the Socialist Pattern to which the present Government are committed ever since the adoption of the well-known resolution on Socialistic Pattern of Society by the Avadi session of the Congress.

The speeches and declarations of policy by the Prime Minister and other Congress leaders from time to time have not only confirmed this but even indicated a step forward in this direction by now clearly adopting the “ Socialist” in place of “ Socialistic Pattern of Society.”

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The draft outline has further emphasised this aspect of the Government policy.

Among the objectives of the Second Plan indicated by the Planning Commission the fourth objective of reduction of inequalities in income and wealth and a more even distribution of economic power has, it appears, very largely influenced the approach of the Commission in dealing with this sphere of the private sector in the Second Five-Year Plan.

In this context it is interesting to note the following observations of the Commission. “ Economic growth means not only more production but also more—and increasingly more—capacity to produce. The Second Five-Year Plan has to increase the flow of goods and services available and also to carry forward the process of institutional changeThe achievement of a Socialist Pattern of Society has been accepted as the objective of the economic policy. This means that the basic criterion for determining the lines of advance is not private profit but social gain. Major decisions..... must be made by agencies informed by social purpose....”

“.....the public sector has to expand rapidly and the private sector has to play its part within the framework of the comprehensive plan accepted by the community..... The Socialist Pattern of Society is not... rooted in any doctrinaire dogma..... economic policy and institutional changes have to be planned in accordance with democratic and egalitarian ideals which

the country cherishes and is resolved to pursue.”

The Commission are not apparently satisfied with laying down the objective of elimination of inequalities of wealth and income as between different sections of the population but desired that the entire pattern of investment is adapted to the securing of balanced regional development in the country, and to eliminating disparities in levels of development as between different regions in the country.” They have pointed out in this context that.... “up to a point the growth of large towns and cities is a necessary accompaniment of industrialization..... Beyond a point, however, there are social costs like the emergence of slums and increased incidence of illhealth.” They therefore favour “decentralized industrial production.”

The Commission have further pointed out that “economic objectives cannot be divorced from social objectives and means and objectives go together. It is only in the context of a plan which satisfies the legitimate urges of the people that a democratic society can put forward its best efforts”. “All these objectives require a diversified economic pattern.” They emphasize at the same time that “ the process and pattern of development should reflect certain basic social values and purposes. Development should result in diminution of economic and social inequalities and should be achieved through democratic means and processes.”

It is the last aspect of this process of development viz., the democratic means and processes which, in

my opinion, requires to be kept in view very prominently in considering the effect which the evolution of a socialist pattern of society is likely to have in *an underdeveloped economy working under an infant democracy* as in a country like ours. Ideologically, it would indeed be a consummation highly to be cherished that democracy and a socialist pattern of society should be developed simultaneously in a country where the fruits of freedom and of economic development have just begun to be tasted.

The question, however, is whether in the context of the existing economic, social and political circumstances in the country, such a simultaneous development of these plans is feasible without running the risks which appear to be inherent in a rapid advance on all the fronts. And what are these risks? It has been the experience of the countries in Eastern Europe including Russia that Socialism, which later developed into Communism, has sounded the death-knell of democracy and of individual liberty & often argued that we in this country have to make up for a time lag of decades of backwardness in the course of a few quinquenniums of planned development, just as a country like Russia claims to have done and a country like China attempting to do. But as I have said before, in Russia, Socialism has abolished Democracy, the Chinese experiment is still in the process of being worked out.

The risk before our country therefore is that democratic processes and means, we may achieve in

our anxiety to evolve a Socialist Pattern by neither. At best, perhaps, we might achieve one at the expense of the other. The fact that this risk exists has been proved by the history of Eastern countries of Europe what then are the chances of our achieving these dual objectives of Socialism with Democracy in our country? As a means towards the achievement of a Socialist Pattern of Society, the Commission propose the extension of the Public Sector.

The obvious objective is to eliminate the supposed existence of a concentration of economic power in the hands of a few and to prevent the growth of such power in the hands of a few in the future. But the extension of the public sector in an expansionist economy is bound to result in the concentration of economic power in the hands of those who form the Government and of those who administer public enterprises. Consequently economic power will be concentrated in the hands of those who have the political power in their hands. With the development of the country's economy at a rapid rate, such concentration of economic power will also grow equally rapidly in the hands of politicians or of bureaucrats who will be working initially under the directions of the politicians who occupy the places of power under our present democratic set up.

Human nature being what it is and the standards of integrity, patriotism and selfishness being at a common low level among all the sections of the community whether they are businessmen, industrialists, politicians

or civil servants, what is the guarantee that the evils which are supposed to exist at present by the concentration of economic power in the hands of a few so-called capitalists will cease to exist when a larger and greater concentration of economic power in the hands of a few politicians and civil servants takes place under the new economic order?

It can hardly be denied that having taken several generations for the achievement of political freedom, we should value democracy, freedom and liberty of the individual citizens as of far greater basic value than the pace at which the economic development had taken place. Having granted this, can it be denied that it would be unwise to run the risks which I have indicated? Can it then be denied that it would be in the larger interests of the basic preservation of our freedom, of the strengthening development of our nascent democratic institutions and of the development of our economy that the new economic order which is intended to usher in an era of social and economic equality should be achieved through the surer and historical proven processes of comparatively slow moving democracy rather than through the rapid but highly dangerous methods which have been witnessed in totalitarian countries?

The new economic order should not endanger our newly won freedom and towards that end it is the duty of all the citizens, no matter what station of life they find themselves in to see to it that our leaders and our planners follow the surer path of democracy and of

gradual achievement of economic development rather than the dangerous paths of totalitarian methods to achieve a higher degree of economic development at a faster pace.

Apart from the considerations mentioned above, the other important point is that the rate of development envisaged in the Second Five-Year Plan particularly in the industrial sector, as compared to the rate of development already achieved during the First Five-Year Plan period, is not of such magnitude apart from the Steel Plants which the Government themselves have already decided to establish, that it can be considered to be beyond the capacity of the private sector to undertake that development nor is it of such high magnitude that the institutional changes in the frame work of industrial ownership and management should become necessary.

The record of the private sector in the First Five-Year Plan, as accepted and acknowledged by the Planners themselves, is sufficient to justify the continuation of the existing institutional frame work Even on this score, therefore, the changes envisaged can be considered to be entirely dictated by the ideological determination based upon the Avadi resolution and not on considerations of the need for rapid rate of development.

OUTLAY

The total developmental outlay of the Central and State Governments over the period of the plan works out at Rs. 4,800 crores, the distribution of this outlay by major heads of developments is as under:—

	<i>(Rs. crores)</i>			
	First Plan	Second Plan	First Plan	Second Plan
	Total	Per	Total	Per
	provi-	cent,	provi-	Cent.
	sion.	sion.	sion.	sion.
1. Agriculture and community development	373	16	565	12
2. Irrigation and flood control	395	17	458	9
3. Power ..	26	11	440	9
4. Industries and minerals	179	7	891	19
5. Transport and communications	556	24	1384	29
6. Social services, housing and rehabilitation	547	23	945	20
7. Miscellaneous . .	41	2	116	2

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

- Eugene Black
*Former President,
World Bank*

FORUM

of Free Enterprise

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

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including essay and elocution contests and leadership training camps are organised every year towards this goal.

Membership of the Forum : Annual Membership fee is Rs. 250/- (entrance fee Rs. 100/-). Associate Membership fee Rs. 150/- (entrance fee Rs. 40/-). Students (Graduate and Master's degree course students, full-time Management students, students pursuing Chartered Accountancy, Company Secretaries, Cost and Works Accountants and Banking courses) may enrol as Student Associates on payment of Rs. 50/- per year. Please write for details to : Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400 001. Telefax: 22614253, E-mail: ffe@vsnl.net

Published by S. S. Bhandare for the Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400001, and Printed by S. V. Limaye at India Printing Works, India Printing House, 42 G. D. Ambekar Marg, Wadala, Mumbai 400 031.

4/January/2011