TWO ALARMING PHENOMENA

Two alarming phenomena have manifested themselves in the last few months. One is the progressive concentration of economic power into political and bureaucratic hands. Another is the unremitting tendency on the part of Government and its spokesmen to say and do things to belittle and throttle Free Enterprise. Both these phenomena will ultimately lead to loss of democracy, defeat of the very objectives before the country of building a prosperous society of the free and the equal; and deprive the individual of initiative and enterprise and "all those fine things of life which have ennobled man throughout the ages". (Words quoted from Prime Minister's speech at Indore on January 4, 1957).

In this context, the Forum presents the following timely utterances of three leaders in the field of Free Enterprise for cogitation and public discussion.

The following extract is from the presidential address of Sir Homi Mody at the Twenty-Fourth Annual General Meeting of the Employers' Federation of India at Calcutta on February 26, 1957:

In my speech last year, I had commented at some length on the Second Five-Year Plan, examined its targets and the resources available and had pressed for a little more gradualness in the process of transforming our age-old economy. I had also expressed my apprehensions with regard to the imposition of penal taxation, widening controls and consumption curbs, which were calculated to cause considerable hardship to every section of the people. Mr. K. C. Neogy, a Member of the Planning Commission, subsequently voiced similar apprehensions and uttered a warning that inflation, progressively heavy taxation and rigid controls might well set in motion forces of reaction and demoralisation at different levels of society. Mr. John Strachey, a British labour leader and economist who had visited India recently, also expressed the view that the danger of serious inflation developing was real. Similarly, the World Bank, after an investigation by its representatives on the spot, arrived at the conclusion that the Plan was too ambitious and that, insofar as the public sector was concerned, the targets were too high to be completed within the time limit of five years.

Recent developments have lent point to these observations. The problem of foreign exchange, particularly, has become very acute. The total requirements of the Plan had been estimated at Rs. 1,100 crores. It was recognised that, without a liberal measure of assistance from the U.S.A. and under the Colombo Plan, it would be difficult to meet these requirements. The experience of the last nine months shows that the planners have underestimated the foreign exchange component of the large investment programme which they wanted to undertake. It was intended to spend, over the five years, Rs. 200 crores from the exchange reserves of the country, consisting mainly of sterling balances. This amount has, however, been spent during the first nine months of the Plan. Foreign exchange resources can only be obtained by stepping up the export trade of the country and by securing foreign aid and investment, and it is hoped that, as a result of the recent visit of our Prime Minister to the U.S.A., American aid will be forthcoming in a larger measure than might otherwise have been the case. It is not likely, however, to cover the entire gap in India's foreign exchange requirements, and it is to be seen to what extent the measures which the Government have adopted will relieve the situation. So far as the development of the industry in the private sector is concerned, they are bound to have adverse effects. The action taken to restrict import licenses for capital goods to those cases only which would not involve large foreign exchange commitments, or in which assurances of long-term credit or deferred payment on the part of foreign manufacturers have been obtained is an instance in point.

In consequence of the stepping up of the investment in the State sector from Rs. 4,800 to Rs. 5,300 crores, the difficulties, pointed out last year have been further aggravated. As deficit financing of the order of Rs. 1,200 crores is in itself likely to give rise to dangerous inflationary pressures, the higher investment would obviously have to be sought to be met chiefly by means of additional taxation, as an upward revision of the resources to be obtained through loans and small savings, railway receipts, provident funds and other deposits would add up to a small amount. Taking into account the uncovered gap of Rs. 400 crores, which cannot be bridged by any other means except by fresh impositions, the total additional taxation which may have to be resorted to would reach an alarming figure. Even after implementing all the proposals of the Taxation Enquiry Commission, additional revenue of such proportions would be impossible to secure without disrupting the entire economy.

It is unnecessary to emphasise that the objectives of the Plan command wide-spread support and, if there are differences, they relate to the manner and method of implementing them. I have no doubt whatever that, in a matter of a couple of decades, India is bound to become one of the most important industrial nations of the world. The real issue is whether, in the process of achieving such a position, policies are to be pursued which would strain the economy of the country to breaking point and whether the fundamental liberties and democratic institutions which are ours today would remain intact and inviolate. Since liberty is never lost at one stroke, but by a gradual and step by step abridgement, it is necessary that the closest scrutiny should be applied to Governmental measures purported to be taken in the general interest. Equally necessary it is to ensure that the steady and progressive development of the country's resources is not jeopardised by any hastily conceived measures to force the pace.

The revised industrial Policy Statement, issued in April, 1956, was welcomed by some of us, as at least a clear enunciation of future policy and as affording a promise of co-existence to the private sector in a defined sphere. However much we may deplore the fact that the policy which was announced displaced the private sector from a number of industries which are its legitimate sphere of activity, we felt it embodied some valuable assurances which we had sought. We had the promise of adequate assistance in fulfilling the role assigned to free enterprise, and we had the assurance that there would be no precipitate encroachments on the private sector of the economy. We were, therefore, greatly surprised by the announcement that Government had decided to take over, by executive fiat, the internal trade in cement and other commodities. No valid reason was advanced in support of this drastic action. We were vaguely told that State trading had become necessary for facilitating trade with communist countries. Whatever the validity of this argument, the subsequent extension of the limits of State trading afford another example of the snow-balling effect of power in the hands of the Government. Commerce and trade are so essentially the province of individual enterprise and so little suited to bureaucratic handling that we cannot but look upon this action as the severest encroachment, to date, on the functions of private enterprise.

Measures have also been taken to curtail the resources available to the free sector of industry to carry out its allotted tasks. The recent imposition of fresh taxation of an unusual character and the proposal for compulsory deposit of reserves announced by the Finance Minister have created a crisis of confidence at a moment when all available resources need to be employed in utilising, to the fullest extent possible, the productive capacity of the country.

In the present political climate, it may appear an academic exercise to assess the proper role of the State in economic matters. But all over the world, thought is being given to the question, and even socialist thinkers are deprecating the arrogation of unlimited power by the State. In this connection, it may be profitable to recall a dictum of Abraham Lincoln :

"The legitimate object of Government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do for themselves in their separate and individual capacities. And in all that the people can individually do as well themselves, Government ought not to interfere."

The following extract is from the presidential address of Mr. S. L. Kirloskar at the Tenth Annual General Meeting of the Indian Machine Tool Manufacturers' Association in Bombay on February 28, 1957

What has happened in the Indian political field in the last few years has acted as a great damper and disincentive to the starting of new enterprises and the existing activities of the present factories in the private sector. The recent laws and announcements in the political, financial and labour policies have further deteriorated the conditions for starting these factories. No individual is prepared to embark on a risk-forming venture when he is confronted and circumscribed by innumerable rules, orders and regulations regarding establishment, production and marketing, covering all conceivable aspects of running an industry. To top this all, every platform is employed by our politicians to spell the death-knell of private enterprise and bring it into disrepute. In such circumstances, he would be a bold man to start a new industry in the face of open hostility.

The following is the text of a Press Statement on Feb. 1957 By Mr. Ramniwas R. Ruia.

On the economic front, to make the second Plan reasonably successful, there will have to be better co-ordination between the Ministries of Finance, Commerce and Industries and Agriculture. Otherwise steps taken by one of them individually may be harmful to others.

From the currency and bank deposit figures of leading industrial countries, it can be seen that in U. K. Bank deposits are 350% of the currency in circulation, in U. S. A. and Japan, they are 600%, while in India they are less than 75%. This means that lot of money is either hoarded or is blocked in such non-essential articles from the country's point of view, like bullion and jewellery. Even if the Bank deposits are brought up to 15%, it will mean that Rs. 1,100 Crores will be available and in circulation for nation-building objectives. Naturally this can only be achieved by creating better confidence in the public and educating them of its benefit to themselves—not by creating an atmosphere of fear and scare in their minds.

Development of agricultural economy and industries allied to such economy will have to be the most important part of the national development programme, because that will have effect on 80% of the national income.

Even in the first year of the Plan, foreign exchange has become a big headache, and now the Government wants the Private Sector to so arrange that all such imports of machinery is paid for in 7 to 10 years. This position could have been foreseen. Anyway, for individuals, this credit arrangement becomes a very difficult task. Even if some are able to make arrangements, apart from their own costs going up substantially, which ultimately the Government will have to bear, by way of receiving so much lower returns, the Government further loses 50% to 75% in foreign exchange over the period itself because of heavy interest, guarantee charges and exchange cover that has to be made and paid for additionally and annually in foreign currency.

By constantly expressing annoyance and criticising the Private Sector, industries and industrialists, the Government is unnecessarily creating a sense of fear and helplessness in their minds.

This tends to reduce enthusiasm and entrepreneurial spirit which in itself is not in the best interests of the country. By taking wide powers to tax industries and their products at any time and as many times as they like through the Lok Sabha, and even without the Lok Sabha, gives the sense of having a hanging sword over one's head all the time. This also brings a sense of insecurity and retards planning and development.

One other thing which appears strange to me is that the nationalised Life Insurance Corporation is often buying shares of leading and popular concerns and industries in the Private Sector. This cannot be with any idea to help the the Private Sector. Because, well established industries which are popular with the public do not need the Government to buy their shares. This can only mean that in all such major institutions in the Private Sector the Government wants to become the leading shareholder. I fail to understand the necessity of it.

The Government has, as it is, wide powers and controls over all industries and they can use it where it becomes necessary. If they want to help the Private Sector through the Life Insurance Corporation, then this Corporation should finance concerns where such finance is not easily available, or buy shares of new concerns which the Private Sector cannot easily absorb, also advance against properties, as such advance is very difficult today.

In short, it should make money conditions generally easier which are so tight today.

Actually, I should have thought, all their resources will be taken up in helping Government and State loans which have to be floated annually and which cannot be financed by the Private Sector in any big Way.

Regarding forward cotton markets, if you see all that I have said in the last month or two, it can be noticed, what I said in the past has practically come to happen. One dealing in actual cotton has very little use for the forward contract as it stands today — because there is no link with ready cotton, with the result that the contracts are purely speculative. Besides, with the constant chopping and changing, genuine business people cannot form any opinion, except those who try to find and possibly get some inside information. That can only mean a gamble.

Of course, I say this with confidence that forward contracts can be so framed which will not fluctuate widely, which will give proper hedging facilities, which will mean less speculation and more genuine trade and which will carry confidence that there will be no need to alter it or artificially control it because of fluctuation in prices. But this will also mean those who are buying and selling for gains on first hand information will have to forego such interests due to less speculation for the benefit of the cotton trade in general.

How far they will be so prepared remains to be seen when the occasion arises. They were the people who were after the Government last year to get the markets opened at any cost and the trade is paying the penalty for that.

It has been amply proved that prices cannot be artificially controlled. Also it has been proved that last year Government's action was grossly wrong by the forward prices and crop last year and the forward prices and crop this year. On the basis of conditions last year, even without taking into account crop considerations, the contract should be at Rs. 650. It is Rs. 725 and likely to go higher still. What has the Government to say about it now in justification of its attitude last year ?

By the way, our present Commerce and Industries Minister was responsible for imposing the condition in racing that those who are at the helm of its affairs should not bet. Why does he not think of a similar step in cotton and seeds, for those who are leading and controlling their destinies and which affects the whole country's economy, by enforcing a rule that they do not speculate? After all comparatively, racing is of much less importance. This step, if effectively enforced, will in itself set right all the ills and wrongs in the market by at least 75%.

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