

PITFALLS IN OUR INDUSTRIAL
POLICY

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While India was under the British Rule, there was no national policy for the industrialisation of the country. It was in the interest of Great Britain that India should continue to be the exporter of raw materials and the importer of finished products.

It was only a few years before the fight for Independence gathered strong momentum that the policy of discriminating protection was announced. It was halting and half-hearted. That Policy was hemmed in with so many limitations and restrictions that neither could it provide opportunities nor did it supply a driving force for the rapid and all-sided industrial development in India. Private enterprise has, therefore, earned the gratitude of the country for the faith and courage with which it developed such industries as Textiles, Jute, Steel, Sugar, Shipping, etc. against heavy odds and at considerable sacrifices.

With the advent of independence, the position has radically changed. The days of *laissez faire* have been over. The age of development under a planned economy has already gathered strength. It should not, however, be forgotten that Private enterprise had recognised the need for planned economy even before India obtained her freedom. The publication of the Bombay Plan in 1944 was one of the most remarkable documents which recognised and advocated the vital need and great importance of developing the country in all directions under a well-thought out and well-balanced plan.

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

—Eugene Black
President, World Bank

It was on the 6th of April, 1948, that the Government of Free and Independent India announced for the first time the National Industrial Policy of the country. It made it clear that the manufacture of arms and ammunitions, the production and control of atomic energy, and the ownership and management of railway transport shall be the exclusive monopoly of the Central Government. It also laid down that in six other industries, viz., coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telephones, telegraph and wireless apparatus and mineral oils, the State alone will be exclusively responsible for the establishment of new undertakings,

The rest of the industrial field will normally be open to private enterprise, individuals as well as co-operatives. The economic thought at New Delhi had not visualized at that time the public sector becoming the dominant feature of the industrial landscape purely on ideological considerations.

It is also significant to note that the First Five-Year Plan made the following categorical statement of national policy. It laid down that "*the scope and need for development are so great that it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and running the risks involved, leaving the rest of the field for private enterprise.*"

The first radical shift in this economic thinking of the Government came with the nationalisation of air services on the 1st August, 1953. This was the first breach in the Industrial Policy of the State. With the return of the Prime Minister from China, in the latter part of 1954, the economic thinking of the Government witnessed a further fundamental departure from the announced industrial policy of India. Although the First Plan had stated that "the ownership and the control of the material resources of the community are

so distributed. as best to subserve the common good", the Prime Minister announced on the 9th November, 1954, before the National Development Council, that "the means of production should be socially owned, and controlled for the benefit of society as a whole".

Here lay the vitalising germ of the revolution in the economic policy that was to follow. On the 21st December, 1954, the Prime Minister remarked in the Lok Sabha: "We cannot progress except by State initiative and except by enlarging the public sector and except also by controlling the private sector".

This was followed by another statement made by the Prime Minister in his address to the A.I.C.C., on the 19th January, 1955, when he clinched the issue and observed: "En any planned approach to a socialised economy, the public sector must grow and become the dominant feature of the landscape".

With the endorsement by the Lok Sabha of the Avadi Resolution for the establishment of a Socialistic Pattern of Society, the revolution in the economic thought at New Delhi was complete. The ability and the willingness of the private sector to play its part were no longer to be the criteria for the industrial development of the country. The ideological considerations underlying the new gospel of building up a socialistic pattern of society would alone be the determining force of the future industrial policy of India.

The invasion on the rights of private property guaranteed by the Constitution, the provision of a clause in the Act making the compensation issue unjusticeable, and the investing of the Government with full powers to acquire any industry and run it at the risk of the shareholders without the payment of any compensation, were the first revolutionary steps taken for the building up of a socialistic pattern of society by making vital changes in the Constitution of India.

There was no halt in this onward revolutionary march of the Government. The Imperial Bank of India was nationalised in July, 1955. The Life Insurance Companies in the country were swallowed at one stroke by the State in January, 1956. There was thus a threefold attack on private enterprise. The people were deprived of their sacred rights of property. The services which they had built up with the struggles and sacrifices of several decades were taken away from them by the State. The streams which provided finance for private enterprise were brought completely under the control and ownership of the State.

The red objects of nationalising Life Assurance seem to be two-fold: the first was to take over crores of rupees which accumulated from the premia collected by the Life Assurance Companies and the second was to obtain control, when necessary, over several important industries in which the Life Assurance Companies held a substantial number of shares. Nationalisation was coming in by the back-door. This was the new technique of the Government to provide opportunities for the people to co-operate with them and all this in the name of democracy!! The visit of the Prime Minister to China and Russia had brought new wisdom and a new philosophy which, no doubt, were playing their effective part in shaping the future destiny of our country.

The new industrial policy resolution was announced on the 30th April, 1956. The revolution in the economic thought of the Government which had been manifesting during the First Plan period in several directions as mentioned above, found its fuller and more vigorous expression in the new national industrial policy which was placed before the country. Not only was the field of activities of the private sector drastically limited, but it was also assigned a subordinate place even in the industries in which it had been allowed to play its part.

The ability and the willingness of the people, as mentioned above, will not continue now to be the true tests of economic growth and the speeding up of industrialisation, but it will be the ideological considerations and the zeal for the establishment of the egalitarian society which will inspire the State to "progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities".

The resolution added that "the adoption of the socialist pattern of society as the national objective as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector".

The new philosophy was thus creating a new economic revolution. Even the field of trade and commerce was to become the monopoly of the State. The resolution stated that the State "will also undertake state trading on an increasing scale". The country has already witnessed the unjustifiable inroads of the State Trading Corporation in diverting several trades from their normal channels to the monopolistic field of the State and under State control. People engaged in some of these trades have lost and are losing their means of livelihood. This is how the socialist pattern of society is being built up and this is how democracy is functioning in actual life. It is difficult to imagine how it will affect the country when the procurement and distribution of foodgrains are brought completely under the control of the State.

Eleven more industries have now been included in the field of industrial development which will be the exclusive monopoly and responsibility of the State. Even in the field of industries where the private sector is allowed to function, the resolution has made it crystal clear that it will be the policy of the State to "take the initiative in establishing new undertakings" Private enterprise is expected now even in

that field, namely, the 12 industries included under schedule 'B', merely "to supplement the effort of the State". Private enterprise will not be allowed in future to be the driving and inspiring force of creating a new industrial India, but it will only be allowed to play a minor role as an agent for planned national development.

As if the revolutionary changes that were made in the industrial and economic policy of the country were not sufficient to control, to curb, to cripple and to crush private enterprise, the Prime Minister has now unfolded his real mind in unmistakable language. He stated at his press conference at New Delhi on the 3rd instant that "you can take it from me that wherever we can do something in the public sector, we will do it. The public sector will always get priority wherever it can do things economically and profitably. There is no question about it. You cannot forget the basic policy of the Government. Most of the critics do not seem to remember it. The right policy will be to realise that the public sector is a basic sector, a strategic, important and advancing sector".

It is true that in the same interview the Prime Minister observed that having left a large field for the private sector they did not wish to impede it. They would encourage it to function in its own field. This alluring note at the end of the chorus sung for the glory of the public sector will only bring home to every impartial thinker that the private sector will have to depend on the mercies of the State for its very existence in the future.

After having professed that the private and public sectors constitute the national economic life, it is really unfortunate that the State should carry on a propaganda in favour of the public sector and announce its determination in threatening language of giving the first place and the first priority to the public sector merely on ideological grounds. The State has

yet to prove whether under the new dispensation, the private sector has not helped the country in the realisation of the true goal of building up a new India. Let us examine a few vital objectives in this connection.

We have been told that while the private sector is actuated by the profit motive, the public sector is inspired with the ideal of national service. The Indian Railways constitute today the largest possible sphere in which the public sector can fulfil its mission of true national service. Over 1000 crores of rupees have been invested in that vital arm of our transport.

Although our national leaders condemned overcrowding in the train during the British rule in this country, our Minister holds out no hope of removing overcrowding in the trains which has become more acute and more desperate than before. No one can, therefore, claim for the transport system that it is performing the national service which is expected of it. On the contrary, rates have been raised which have imposed new burdens on the consumer and have increased the cost of production of several industries militating against their competitive capacity for selling their products in foreign markets.

And what about the profit motive? After providing the sum of Rs. 4 crores—although Rs. 30 crores would be the normally allowable amount—as depreciation, the Railways will be allowed to earn Rs. 77 crores and will not have to provide any amount by way of taxation. If private industries were to be put on a par with the Railways, they would have to be allowed a return of 15% on the capital employed in their business. The industries, however, would be penalised if they were to pay a dividend of more than 6% not on the capital employed in business but on their paid-up capital. One may naturally ask the question "where does the profit motive lie"?

The air services have been nationalised. Before nationalisation the private companies were not allowed to increase their fares. After nationalisation, the nationalised companies have been allowed to raise their fares more than once. Why? Because they were not making profits!

It is indeed a strange logic which condemns the demand of the private enterprise to raise its passenger fares to get rid of their losses—although the ferry services in the Konkan coast have been incurring losses for the last four years, they have not been allowed to raise their fares, but have been admonished to continue their services in the service of the people who travel on the coast—but allows the nationalised industries to do so on the same grounds!

Let us examine what the Finance Minister recently stated in the Lok Sabha. Winding up the debate on the investment policy of the L.I.C. the Finance Minister observed: "What is wrong if the L.I.C. invests its funds in a company if it finds that the shares *are* selling at a low rate? It can buy them and make a profit for the policyholders. I do not see why there should be anything wrong in it."

May we not ask then in all humility "what right has the State to criticise similar action on the part of those who manage a joint-stock company and make a little profit for their shareholders by buying goods in the fallen market and selling them when the market goes up?" There cannot be one law for the private sector and another law for the public sector. A Democracy where one treatment is offered to the public sector and a contrary one to the private sector is bound to degenerate into a Dictatorship.

The State Trading Corporation was allowed to make a huge profit of over Rs. 10 crores from the trade in cement. This exorbitant profit was defended on the ground that the sum thus raised would be utilised for the construction of roads. Such a special pleading ignores the vital fact that

no profits were made at the cost of the consumer who was really sacrificed.

Moreover, if the State really wanted to have a source of finance other than direct and indirect taxation for its needs, there was no necessity to put up an organization like the State Trading Corporation at the cost of the tax-payers; it could have issued a new firm to the effect that the cement industry should pay a sum of Rs. 10 per ton to the treasury in addition to all the taxes which it was bound to pay under the taxation laws of the country. To take away the distribution of the trade from the industry and to make enormous profits on the ground of equalising the selling price of the indigenous and foreign cement and to characterise all that not as profit motive but as national service will not deceive the meanest intelligence in this country.

One of the cardinal principles governing industrial policy is that "when there exists in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them." Is this really so in practice? While the railways and the air services have been allowed to increase their fares and freights, are the shipping companies in the private sector allowed to do so?

The new Merchant Shipping Act applies to the ships owned by the private sector. Do the provisions of that Act apply to the ships owned by the Government, by a Public Authority or by a Corporation brought into existence under a special Act? The industrial policy statement lays down that in their working public enterprises "should have the largest possible measure of freedom". Have the shipowners got such freedom in the operation of their ships? Is not the Director General of Shipping the real dictator? Is not he invested with all possible powers to direct the movements of ships and to issue orders as to what cargo they should load and to which ports they should go?

More glaring than these acts of discrimination between the public and the private sector is the approach of the Government towards creating conditions for the raising of the finance which each of the sector needs. While continuous appeals have been made to the people for co-operation in ensuring the success of the plan which includes both the public and private sectors, neither the appraisal of the plan resources nor its reappraisal examined the question of the finance needed for the private sector and indicated the steps that should be taken or facilities that should be provided to enable the private sector to fulfil the task entrusted to it under the plan.

To talk of "no policy of discrimination" between the two sectors under the conditions and circumstances mentioned above is to put it very mildly, an attempt to make the people believe that the neglected Cinderella had the same rights as her favoured sister.

Whatever justification the Government may give for imposing a number of controls on scheduled industries under the Industries (Development and Regulation) Act, no fair-minded and sane man can ever agree that it shall be the right of the Government to decide finally as to who should be the Managing Director or the Managing Agent of an industry and over-ride even the decision of the shareholders. Such an extraordinary power will only generate forces which will not only ultimately kill the principles of fair play and the functioning of true democracy, but they will also lead to increasing corruption and overpowering dictatorship.

The Second Plan has indicated the sources from which private enterprise can raise the finance to fulfil their responsibilities under a planned economy. It is indicated that private enterprise will be able to raise the sum of Rs. 300 crores from their internal resources. The increasing burdens of taxation imposed on industries during the Second Plan

will leave them with no resources for raising such a large sum as Rs. 300 crores.

It is instructive to note that while Rs. 137 crores were collected from business and professions as tax in 1955-56, the sum collected in 1956-57 was Rs. 173 crores. In view of the heavy taxation levied in 1957-58 this sum is bound to go up still further. The conclusion is inevitable that the so-called internal resources calculated as finance available to the private sector for the fulfilment of its task will be taken away by the Government and utilised to finance the public sector.

It is also stated that the private sector will be able to raise the sum of Rs. 100 crores by way of foreign capital and Rs. 80 crores as equity capital from the country. It is, however, significant to note that while the total paid-up capital raised by the companies in the private sector was Rs. 37.28 crores in the calendar year 1956, that is, before the imposition of new taxation, the amount thus raised in the calendar year 1957 was only Rs. 11.13 crores. (These are the figures given in the latest quarterly report on the working of Capital Issues Control.). The amount that may be raised in the subsequent years is likely to be still less as the burdens imposed, as a result of new taxation, would be operating in its full strength in those years.

Apart, therefore, from relegating private enterprise to a very subordinate position under the new industrial policy of 1956, the Government is taking away not only the waters of the Ganges but also the waters of its tributaries for quenching the thirst of the public sector, leaving the private sector with hardly a few drops. Nobody can say that this is the way in which democracy can function. 2

One of the fundamental principles governing the directive policy of the State is to prevent the concentration of wealth and power in the hands of a few individuals. It may be possible under the new industrial policy and under the new

taxation system to deprive the present entrepreneurs, who have served the country well, both of their wealth as well as of their opportunities to help in the creation of a new India. Under such a system the entrepreneurs may be left with no wealth and may find that whatever intellectual and other powers they may have would not be allowed to be exercised; but cannot one ask in all humility as to where under the new dispensation the concentration of both wealth and power will grow in the coming years? Undoubtedly that will be in the hands of the ministers and the bureaucracy.

Nobody will have the courage to say that Acharya Vinoba Bhave is an advocate of the capitalist system or that he is the protector of industrialists. His words of wisdom and warning will bear repetition. He has stated:

"We talk of democracy but actually power and responsibility has got concentrated in the hands of a very few at the apex. Today a handful of people, that is, not more than 5 or 6, have all the initiative and power in their hands. The rest are just 'yes' men. A small mistake of judgment on their part can destroy and bring misery to countless individuals. Government have power over the entire life of peoples. There is hardly a sphere of life which is absolutely private and personal. This is a dangerous state of affairs."

Let the Government heed this friendly warning in time; otherwise with the present policy of liquidating private enterprise, Democracy is bound to disappear from the land and Dictatorship is sure to flourish with all its brutality, ruthlessness and irresistible power. History has taught us the unmistakable lesson that no Government will ever succeed in suppressing the revolution of "expectations" and build up a welfare state by crushing the hopes and aspirations of the people.

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

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

—A. D. Shroff

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