

INFORMAL TECHNIQUES OF CONTROL OF BUSINESS

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In the last two decades India has been trying in her own way to experiment and evolve a *Third Way* for bringing to her millions a decent level of prosperity that science and technology have made possible. *Laissez faire* capitalism has long gone out of fashion. A most striking development of the post-depression era has been the acceptance by all national governments of responsibility for national social and economic objectives such as growth, full employment, balanced development *etc.* But many of these countries, such as the United States, West Germany and Japan are still predominantly capitalistic in the sense that they continue to rely heavily on the free market system for the allocation and activation of resources. The other alternative has been the communist one of total nationalisation and forced draft development. Though the Scandinavian countries have pioneered social democracy, it is the Indian experiment in evolving the *Third Way* that is massive and most significant, because the preconditions with which India has started on the road are more comparable to the state of affairs in the majority of the under-developed world.

The Need for Controls

What Gunnar Myrdal calls "The Ideology of State Planning" is now a generally accepted doctrine in most of the underdeveloped world, India being a chief exponent. The acceptance of formal responsibility by the Indian Government for certain socio-economic goals, perhaps well summarized by the objective of a "socialistic pattern of society"¹ is itself due to the patent fact that the uncontrolled operation of the economy will not by itself bring about the desired eventuality. So intervention in the operation of the economy is called for. Such intervention is necessary to ensure various objectives like channelling the scarce savings into the most desirable areas of investment, holding the price level in the interests of the vast majority of the population redressing excessive regional imbalance in development *etc.* There exists in India a substantial private sector for which a large field of operation is left open, in terms of the 1948

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1. Myrdal, Gunnar *Asian Drama*, 3 vols. (Allen Lane The Penguin Press, London 1968). See in particular, vol. II, ch. 15, p. 709.

and 1956 *Industrial Policy Resolution*. Also, the private sector has shown unexpected buoyancy, particularly since the *Second Plan* period. Both the private and the public sectors perform their activities in the context of a market. In the absence of total nationalization, the tools of state intervention in the operation of the economy, in order to secure its larger objectives, are the various controls.

Need of Study the Controls

Historically, the reason for reliance on Controls rather than communization of the economy, seems to be certain articles of faith held by the generation of leaders who fought for Indian freedom and wrote the constitution. One of these articles of faith is the Rule of Law, partly a legacy of our historic contact with the British. There are many cornerstones to this Rule of Law, perhaps the most important of which is the principle of separation of the executive and judiciary powers in the state. For a long time students of jurisprudence have been concerned about the increase in delegated legislation, which makes redress through the Rule of Law more difficult, and sometimes, impossible. Now the controls, which are an imperative of the planning ideology, make for a further sharp rise in such delegated legislation. So it is proper that the nature and the effects of the controls should be studied. They should be studied perhaps neither from a strictly legalistic nor from a strictly ideological point of view. As a criterion one may ask the question. Are these controls "optimally" designed and implemented to further the plan objectives as much as possible, at the same time, with the least possible interference with the Rule of Law? It is, of course, much easier to state this test than to apply it.

Peculiar Circumstances of Indian Planning

It has been observed earlier that the Indian experiment is unique in many respects. Here there is no total nationalization of resources. This denies to the government many of the powers for moulding the economy. There is no historical experience to go by in the kind of Directive Planning that India is attempting. While Communist countries have had *Central Plans*, some non-communist countries, such as France, have had *Indicative Plans*, more in the nature of forecasts. Thus India now needs to discover, develop and perfect her own tools for the implementation of a *Directive Plan* in the context of the institutions of private property and the market. Further a great part of the economy is unorganized and thus outside the direct influence of governmental decisions and actions. We can, therefore, be concerned here with only that part of the organised sector described by the term "private enterprise". As against these difficulties, India has the advantage of a civil service bureaucracy, acknowledged by many as one of the most competent in the world.

Informal Controls—Definition and Instances

In the nearly two decades of its life, Indian planning has employed a variety of controls. These have been described by various adjectives and classified in various ways—Direct *vs.* Indirect, Discretionary *vs.* Non-discretionary *etc.* The *Seminar* proposes another dichotomous classification Formal *vs.* Informal Controls. But we must first bring together the various classifications in an orderly scheme and evolve a definition of informal controls, before we can meaningfully talk about their advantages and disadvantages, and the nature and lessons of their working.

A general classification is between Direct (or Physical) and Indirect Controls. Direct Controls have been used as a temporary device in many countries in times of emergency, such as a war, for the rationing and allocation of specific goods and services.

Another distinction is between enabling and disabling controls. The former consists of those measures designed to encourage the formation and growth of enterprises, usually small and medium ones or cooperatives, through the availability of finance, materials *etc.* In this sense, it seems a misnomer to call such measures “controls”, which in common parlance is interpreted as a “don’t” injunction ; but as we shall see later, this is quite an appropriate usage in terms of controls system theory.

Myrdal makes two kinds of distinctions. First he classifies Controls into Positive and Negative Controls defined as follows :

The positive controls are aimed at stimulating, encouraging facilitating, and inducing production or consumption, generally or in a special sector. In regard to enterprise, investment, and production, the positive controls include educational campaigns aimed at clarifying the business situation and encouraging investment, the provision of technical assistance, subsidies, tax holidays and credits on easy terms, the setting of low prices on products and services from the public sectors....The negative controls, on the contrary, are meant to prevent or limit production or consumption by means of bullying, administrative restrictions on capital issues, investment, and production, the denial of foreign exchange, the rationing of consumer goods, and the imposition of excise duties, or the raising of various costs by other means.²

This categorization is more or less identical with the previous one.

Myrdal also classifies controls into Discretionary and Non-discretionary Controls.

Another distinction between controls over the private sector,

2. *Ibid.*, p. 903.

whether of positive or negative type, relates to the way they are applied. If their application involves an individual decision by an administrative authority with power to act at its own discretion, they are considered to be *discretionary*. If the application follows automatically from the laying down of a definite rule, or from induced changes in prices, the imposition of tariff duties or excise duties or the giving of subsidies to a particular branch of industry without the possibility of discrimination in favour of particular firms, the controls are presumed to be non-discretionary.³

Myrdal himself remarks that this distinction is roughly the same as between Direct and Indirect Controls.⁴

With these categorizations and definitions before us, we can now attempt to define formal and informal controls. It seems reasonable to identify controls with the discretionary or direct controls. Then, informal controls would consist of two major elements—firstly, non-discretionary controls, mainly the arsenal of tools in fiscal and monetary policies, and secondly, a set of devices not mentioned in any of the above classifications, namely the various consultative mechanisms between government and private sector. These mechanisms are mainly of two kinds :

1. *Process Mechanisms* such as deliberative meetings between government and private sector, *ad hoc* study groups on specific problems etc.
2. *Structural Mechanism*, which are more permanent structures than the above, established either solely or partly to advise the government or make representations to it, mainly on issues relating to the growth and control of industry; these include the various councils, chambers, associations etc.

Structural Mechanisms are again of two kinds :

- (a) *statutory*, those created by legislation, such as an Act of Parliament, e.g., the *Development Councils* under the Industries (Development and Regulations) Act, 1951.
- (b) *voluntary*, those set up by spontaneous association of elements in the private sector, such as the FICCI, ACCI, IEA, AIMO etc.

Informal Controls—Merits and Demerits

The chief merit claimed for informal Controls is that they will help avoid the disadvantages of formal controls. Many charges are laid at the

3. *Ibid.*, p. 904.

4. *Ibid.*, p. 904.

door of formal controls. Since they involve case by case decisions by the Executive, they could conceivably, though not necessarily, lead to delay, uninformed interference in the sound economic decisions of the entrepreneurs, corruption etc. In fact, such allegations did lead to the setting up of the *Swaminathan Committee* (1963):

to review the operation of controls applicable to the establishment of additional industrial capacity under the Industries (Development and Regulations) Act, the import of capital goods, the issue of capital, foreign investment and collaboration and to suggest modifications as would reduce delays in decisions.⁵

Also, there was the apprehension that the formal controls had failed in preventing concentration of economic power, which led to the *Hazari Report* with many adverse conclusions.⁶ The operation of the formal controls by the civil service has been made extremely difficult, and perforce somewhat arbitrary by the fact that the plan documents, besides stating concepts such as "economic and social justice," have left the methodology very vague, and have stated no specific criterion for the administration of the controls. In the event, a number of policy questions had to be solved as they arose, leading to delay in dealing with applications. Although, the *Second Plan* did stress "that each control has to be viewed as part of a system", in practice this was very hard to achieve. In recent years there has been a move away from physical controls, witness the decontrol output and prices in many industries, raising limits in some and de-licensing in others.

The first type of informal controls, *viz.*, fiscal and monetary policies, have, in theory, the advantage of working through the price mechanism, without the need for case by case administrative decisions. But the structural primitiveness of the Indian economy, with a large non-mentioned and unorganized sector, severely reduce the promise of such controls. Many economists have pointed out the limited applicability of Keynesian prescriptions for control of industry and direction of the economy in under-developed countries.⁷ But as the Indian money and capital markets are slowly getting organized, these controls are of some use.

The second type of informal controls, *viz.*, the various consultative mechanisms have probably more promise than has been exploited so far.

5. Swaminathan, T., Report of the Industries Development Procedures Committee, Ministry of Industry, 1964.
6. Hazari, R.K., Industrial Planning and Licensing Policy—Final Report Planning Commission, 1967.
7. See for example, Chelliah, Raja J., Fiscal Policy in Underdeveloped Countries, (Allen & Unwin Ltd.) London, 1960.

In terms of management theory, if, for a moment, we look upon the Indian economy as a total system to be managed, then the Government of India can be viewed as the top management whose primary tasks are,

- (i) the enunciation of national goals,
- (ii) sub-dividing these into component goals for the various segments of the economy, such as the private sector, public sector etc., and
- (iii) developing organizational and administrative devices and processes to ensure the achievement of the goals at all levels.

In fact, the first two of these tasks have been done more deliberately in the various plan documents. It is the last that has suffered neglect. And that is our main concern in a debate on "controls". We need a wider definition of the concept of control. Commonly, it is understood as control by fiat from the government. A more useful definition is that all the segments of the economy should be involved in the evolution of the total national goals, and their own parts in it, as well as in the devising and implementation of controls for the achievement of those goals. Thus the role of the government should be one of leadership and coordination of the efforts of the segments of the economy. It is here that the consultative mechanisms can play a crucial role. The effective operation of these mechanisms would have a number of advantages ;

- (a) It would lead to a wide exchange and dissemination of information between private sector and Government.
- (b) Such exchange could be conducive to the devising of the most effective controls, and thus prevent many problems rather than cure them after they have arisen.
- (c) It would help laying down the criteria and safeguards to guide the implementation of the controls.
- (d) It would shift some of the burden off the administrative bureaucracy to the private sector itself.

The demerits of such informal controls arise from the possibility that the above hopes may be utopian. Will the private sector take this responsibility, exercise the necessary self-restraint and group sanctions on erring members, keep in view the broad perspective of national goals etc. are questions that come to mind.

The Working of Informal Controls

The limited role of fiscal and monetary policies has already been mentioned. We shall devote more attention to the consultative mechanisms.

It is probably sufficient to consider the mechanisms envisaged in the 1951 Act which is the pivot of control of industry in India. The Act calls for the establishment of a *Control Advisory Council*⁸ and development councils in selected industries.⁹ The *First Plan* refers to both.¹⁰ The *Central Advisory Council* was for advising the Government on matters concerning the development and regulation of the scheduled industries. The *Council* was to be consulted on (a) making the rules, and (b) exercise of powers under the Act by the government. The *Plan* also mentions the setting up immediately of development councils in seven industries "for establishing the necessary liaison." There have been additions and deletions since then.

It is difficult to fully assess the working and contribution of these councils with the limited data. The *Annual Reports* of the Department of Technical Development report on the activities of the councils. These reports and the plan documents indicate an attempt on the part of Government to take advantage of the councils. For example, the *Second Plan* states "The councils have been utilized for the formulation of programmes of development for the Second Five Year Plan."¹¹

The *Third Plan* refers to problems of cost, capacity utilization exports etc. and says :

"These are aspects that should be continuously studied by Development Councils at the expert level."

At least one foreign observer is favourably impressed with the development councils :

The development councils have been utilized for formulation of the development program for the Second and Third Five-Year Plans. In this manner the planning of the industrialization of the country has become a joint and integrated effort of the Government and private sector. It may also be said that this planning mechanism set up by the act has brought about a better understanding and co-operation between the government and private enterprise. A decade ago there was considerable difference of opinion between the two sectors on their respective roles. Today, there is a satisfactory working relation between them toward the common objective of industrialization of the country.¹²

8. S. 5, Industries (Development and Regulation) Act, 1951.

9. *Ibid.*, Section 6.

10. First Five-Year Plan, p. 424-5.

11. Second Five-Year Plan, p. 392.

12. Kust, Matthew J., *Foreign Enterprise in India—Laws and Policies*, Oxford University Press, Bombay, 1964, p. 118-9.

While more data need to be gathered on the working not only of the development councils, but similar such organizations, *e.g.*, the *Export Promotion Council*, and the voluntary organizations, such as the *Chambers of Commerce*, (especially through interviews) it appears reasonable to conclude that both Government and industry are learning to tap the potential of the informal controls more and more.

Conclusion—The Broader Questions

Both formal and informal Controls, then have their advantages and disadvantages. The meaningful question, therefore, is not which type of controls shall we use, but rather which control in what circumstances? Informal controls are more conducive to the Rule of Law. But they call for a high degree of ethical and social responsibility from the private sector. There are some in India to-day who believe with Marx and Engels that the Rule of Law is a camouflage for a State that supports the exploitation of the many weak by the few strong. Their numbers may grow if Indian development does not tend fast enough towards the laudable plan objectives; and it would not be unreasonable. On the other hand, the freedom fighters believed the human values enshrined in the Indian Constitution to be grand and noble and in tune with her hoary traditions. How can India have both—social justice and the Rule of Law, as we know it? Perhaps if all sectors can learn to cooperate, devising effective informal controls where possible, and accepting formal controls where necessary.