DISCRIMINATION BETWEEN THE TWO SECTORS

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

—Eugene Black

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We are now being advised for several years past that we should not enter into any controversy about the existence of the Public Sector and the Private Sector in the country. We should look upon the entire planned economy as constituting the National Sector only. This advice, coming as it does from those who have the power to shape the destiny of India, merits our careful thought. Let us, however, examine the realities of the situation as they exist in the country today and ascertain whether all activities under the planned economy have been receiving just, equal and uniform treatment.

The raising of finance is fundamental to the success of a planned economy. Are sources of finance, which are available to the Public Sector, also open to the Private Sector?, It is well known that the capital required by the Units of the Public Sector comes mainly from additional taxation, deficit financing and grants. The First Plan financed the activities of the Public Sector from additional taxation to the tune of Rs. 575 crores and deficit financing to the extent of Rs. 531 crores. The relative figures for the Second Plan are Rs. 1,002 crores from fresh taxation and Rs. 948 crores as deficit financing. So far as the Third Plan is concerned, it is estimated that the Public

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Sector will be financed to the extent of Rs. 2,260 crores from additional taxation and Rs. 550 crores from deficit financing (a figure which has already been exceeded). It will thus be noted that Rs. 3,837 crores from taxation and Rs. 2,029 crores as deficit financing will be made available for the activities of the Public Sector. This means nearly 42% of the total outlay in the Public Sector of Rs. 14,060 crores during the three Plans. It is crystal clear that these sources are not available to the Private Sector. Such a radically different treatment in the financing of the activities of the two sectors cannot sustain one's faith that there is only one Sector in the country, viz., the National Sector.

Moreover, according to the "Economic Survey 1963-64", grants from T.C.A., Ford Foundation, Canada, Australia, New Zealand, U.K., Norway, West Germany, U.S.S.R., came to Rs. 282.28 crores. Grants under the P.L. 480 arrangement stood at Rs. 375 crores. If this amount of the grants, viz., Rs. 657.28 crores, available to the Public Sector only, is added to the finance provided from taxation and deficit financing of Rs. 5,866 crores, the total finance made available to the Public Sector in the three Plans will total up to Rs. 6,523.28 crores. *In practice, it will mean that the Public Sector has no burden to bear, no interest to give, no dividend to declare for nearly 46% of its total outlay of Rs. 14,060 crores during the first Three Plans.*

The Private Sector has, however, to raise all the finance it requires either as equity capital or as loans. It cannot do so without paying a fair amount of dividend on equity capital and the market rate of interest on the money that it may have to borrow. The financial burden which it has to bear is, therefore, far greater than the one which the Public Sector has to bear. There is no burdenless finance for it to the extent of 46% of its outlay, which the Public Sector has got. Moreover, there is no source open to it for the reimbursement of its losses. This is in sharp contrast with the special privilege, which is accorded to the units of the Public Sector, where, in the case of the Government Shipping Corporation, the reimbursement of its losses was characterised as advance of working capital!

Moreover, the Private Sector cannot borrow in all cases from abroad and from foreign or international institutions such as the World Bank, without the consultation and the consent of the Central Government. This is not a small difficulty for the Private Sector to raise the finance it needs for its projects in time and, consequently, both the economy and the efficiency of the units it sets up stand at a serious disadvantage. Further, the Plan provides for "Committed Expenditure" for the development of institutions and services of the Public Sector out of revenues of the country. For instance, in addition to the outlay of Rs. 7,500 crores for the Public Sector, the Plan has also provided, out of the revenues of the country, the sum of Rs. 3,000 crores for the Third Plan as "Committed Expenditure" for the Public Sector. There is no such provision out of the revenues of the country for similar activities of the Private Sector.

In view of this fundamentally different approach to the raising of the finance 'or the two sectors, it is difficult for any fair-minded man to agree that there is only one Sector, viz., the National Sector, in India.

Moreover, the Government has offered special concessions from income and other taxes for raising the finance it needs. People in the Private Sector cannot do so. For instance, for diverting the savings of the people into Government channels, the Government has issued the Ten-Year Defence Deposit Certificates free of income-tax. It is not open to the Private Sector to raise such finance by giving tax-concessions. Further, crores of rupees are diverted from the hands of the people to the Government Treasury by the compulsory levy of Annuity Deposit under the misleading plea that "the object of Annuity Deposit was to immobilise funds which might lead to inflation"!

It is only those who have to pay such deposits know how they have to curtail some of the essential items in their budgets to do so. Moreover, the Unit Trust can mobilise crores of rupees from the savings of the people since every individual can be encouraged to invest at least up to Rs. 16,000 as he will have not to pay any tax up to the amount of Rs. 1,000 which he may get by way of interest. The Private Sector cannot do so. It is not open to the Private Sector to start such an Unit Trust in India, as Private Sector is allowed to do in other developed countries. Such a method of diverting the savings of the people into Government channels by offering tax exemption clearly shows that the Public Sector and the Private Sector are not accorded the same and equal treatment.

Private Enterprise was criticised by the Government to the effect that: "It has failed to deliver the goods and many of the licences given to that sector for putting up fertiliser plants have proved infructuous." The authorities, however, forgot that, while foreign exchange was allotted to the units for the manufacture of fertilisers in the Public Sector, no such foreign exchange was allotted to the Private Sector and that it was asked to arrange for the same through the collaborators. As the President of the Indian Merchants' Chamber remarked: "None of these credits was made available to the Private Sector even to a small extent and the Private Sector was told in categorical terms that it should find all the foreign exchange needed for importing the plants and the equipments through their collaborators, if any." Such a policy is a direct negation of the cry of the existence of the National Sector only.

The First Plan laid it down as the fundamental principle of planning that, as long as the Private Sector was willing to invest and prepared to take risks, the Public Sector would not come in. This wise and sound principle was soon thrown to the winds. The new policy is to limit the fields, which will be open to the Private Sector. Even in the fields open to the Private Sector, the main role will be played by the Public Sector only. The State Trading Corporation has gone on widening its Empire. The Government wants the Public Sector to become the most dominant feature of the landscape of India's trade, commerce and industry. How can one then agree with their view that only the National Sector exists?

Mr. Lal Bahadur Shastri, as Minister of Transport, assured the country in September 1956, that: "I may also state very clearly in this context that it is not our intention that shipping in the Public Sector should run in competition on routes on which existing private shipping companies have established themselves." In July 1958, Mr. S. K. Patil, Minister of Transport, remarked: "Today we want leadership and we look to it in the Private Sector where most of the work of the shipping industry in the last forty years has been done", and added that "the Public Sector in shipping is just in the position of your younger brother, and I assure you that you will always remain the elder brother or the elder sister, whatever you call it." Despite these assurances given by the Ministers themselves, long before the ink with which they were written could be dry, the Public Sector forced its way in the India-U.K.|Continental trade, which was built up by private enterprise at considerable sacrifice. "Heads I win and the tails you lose" cannot become the solid basis on which the National Sector can be built up.

There was a time when the Government believed in the philosophy that making of profits was not in consonance with the promoting of social justice. Governmental authorities criticised the Private Sector for making profits. The economic thinking of the Government on the subject of profits, which the units of the Public Sector should make, has now undergone a radical change. It was first indicated in the speech of Mr. Morarji R. Desai, when he was the Finance Minister of India. In view of the difficulties experienced in raising the resources necessary for the Public Sector during the Second Plan period and the early years of the Third Plan, he remarked in his budget speech of 1962-63, that the units of the Public Sector "must get an adequate return on the vast amount of capital we are investing in our Railways, Power Plants, Irrigation works, fertiliser plants, steel plants and the like." No one will miss the essential fact that the Finance Minister's solicitude extends to the Public Sector only and every one will clearly realise what he means by "adequate return."

Moreover, Mr. T. T. Krishnamachari, the present Finance Minister, again emphasised in his budget speech for the year 1964-65, the view that "It is of the utmost importance for our economy that enterprises in the Public Sector should not only make profits, but should make good profits. By that I mean that they should give a good dividend to the exchequer and yet be able to build up reserves to finance their own future expansion." He stated the policy of the Government in this connection, in the following very clear, emphatic and significant words: "But when the State begins to provide power and transport, when it owns steel plants, fertiliser plants and machine-building plants, it must make sizeable profits out of them, build reserves, amortise loans and provide adequately for depreciation of assets and their replacements so that the Public Sector can expand without adding unduly to the tax burden." The Minister exceeded the demand which the Private Sector has made for the rate of profit, which it should earn. It will be noted that he wants the units of the Public Sector to have sufficient surpluses out of profits for their "future expansion" after providing "a good dividend to the exchequer". One should also carefully note that the announcements made by the Government from time to time clearly reveal the fact that it now clearly recognises that the making of profits is a patriotic act.

The present Finance Minister wants such surpluses to remain out of profits, after providing for depreciation, paying taxation, declaring fair dividend, as would enable the Public Sector units not only to pay the interest on the money borrowed by it, but also the amount of the instalments of the loans, as they may fall due. When the time came for the provision of such surpluses out of profits for amortisation of the loans given to the Private Sector units, the action of the Government made it clear that, what was applicable to the units of the Public Sector, cannot be applied to the units of the Private Sector.

It is well known that, when the Tariff Commission was asked to consider what retention price should be allowed for the products of the two steel companies in the Private Sector, it was asked to include in that price the amount, which would enable the steel companies not only to pay the interest, but even the amount of the instalments of the loans given to them by the Government of India, when they fell due. It was in pursuance of this directive from the Government, that the Tariff Commission recommended that the sum of Rs. 8|- per tonne should be included in the retention price to enable the Tata Iron & Steel Company and the Indian Iron & Steel Company to meet the amortisation of the loans which they had taken from the Government. It was, however, unfortunate that the Government did not accept this recommendation and did not allow the sum of Rs. 8|- per tonne to be included in the retention price for the purpose for which it was given. This involved the two Companies into a huge loss of nearly Rs. 5 crores during the course of two years. This evident act of injustice had so much upset even such a distinguished leader of industries as Mr. J. R. D. Tata, who is known for his sober views and practical outlook, that he publicly remarked that he was alarmed at the attitude taken by the Government in this matter and sounded a note of warning by saying that: "It is only by exercising restraints in the use of their economic powers that the Government can retain the confidence of the people in the fairness and impartiality of their policies and action." Can there be a greater glaring instance of discrimination between the two sectors than the one which we have just examined when the amortisation of the loans taken by the units of the Public Sector should come out of profits and those taken by the Private Sector should come out of new capital that that sector could raise? And is it not in consonance with the differential treatment which is given to the two sectors, when the Planning Commission stated in its Memorandum for the Fourth Plan, that: "Capital is a scarce resource and the prices of public enterprises must be so set as to provide an adequate return on the capital employed in them. A return of 12% on the invested capital would be an appropriate return for determining the price policy of most public undertakings."

A return of 12% after payment of all expenses and taxes. Will such a treatment be given to the Private Sector?

As a matter of fact, the Government recently concluded a new agreement between itself and the steel companies, whereby one of the companies made a payment of a little over Rs. 5 crores in cash. One can easily understand the extent of the financial strain which such an arrangement would put both on the economic working of the company, as well as the operations of its future expansion. The Government also chose to threaten the two Companies with dire consequences if they did not make the payments due by them in time. The Government communique, which was recently issued in this connection, has stated: "So long as there is no default in any of the payments due by the Companies the Government has agreed not to exercise its power under the Company's Act of converting the outstanding balance from time to time into equity shares." No reasonable man can deny that this is not the treatment which the two steel companies deserve. It is also difficult to disbelieve that the adoption of this policy is the outcome of the earnest desire of the Government to introduce nationalisation in this industry by the backdoor. These events naturally confirm the view which the people have been taking that there is not only one sector in the country, but the two sectors do exist and the Private Sector has been receiving a treatment which is radically different from the one which is given to the Public Sector.

The Private Sector has always been blamed by the Government for not safeguarding the interests of the consumers. It would be difficult to deny that there was no truth in this charge. But one cannot help thinking that it comes with ill grace from the mouth of the' Government which often shows scant consideation for the interests of the consumers.

For instance, the Government alone, at present, is the importer of fertilizers in the country. When it started selling fertilizers, it announced that the pricing policy would be based on "no-profit, no-loss" theory. The Audit Report (Commercial) of the Central Government, 1963, has pointed out that the pricing policy of the Government did not rest on this assurance. The Report has added that in the first year, i.e. 1957-58, the Government of India made a profit of Rs. 1.54 crores by the sale of 768,461 tonnes of fertilizers. This profit, however, rose to Rs. 7.44 crores in 1960-61, i.e., within a period of four years. In other words, instead of making a profit of Rs. 20.1 per tonne by the sale of fertilizers, the profit made in the fourth year, despite the assurance of "no-profit, no-loss" basis of fixing the pricing policy jumped up from Rs. 20.1 to Rs. 86.8 per tonne when 857,957 tonnes were sold. This is not enough. In the distribution of cement which the Government gave to the State Trading Corporation as its monopoly, that Corporation, after making provision for its own commission, remitted a profit of more than Rs. 11 crores to the Treasury of the Government, during the period of three years. The price of cement was not brought down in the interests of the consumers.

To ask the Private Sector to make small or no profits in the interests of the consumers and to allow the Public Sector to go on increasing its profits year after year, by the sale of commodities for which the Government has got the monopoly, can only strengthen one's opinion that the two Sectors do exist in the country and the favourable treatment given to the Public Sector is not extended to the Private Sector.

While the units of the Private Sector will have to pay bonus to their workmen, whether they make profits or not, the units of the Public Sector are exempted. Moreover, the units of the Public Sector, which do not compete with the units of the Private Sector, will not have to carry out the obligations which are imposed upon the Private Sector under the Bonus Act. For instance, the units of the textile industry and the jute industry in the Private Sector, with which the Public Sector does not compete at present, will not be exempted from the application of the Bonus Act. The Bonus Act is based on the principle of "partners in prosperity". Are not the workmen in the Public Sector as much "partners in prosperity" as the workmen in the Private Sector? The net result of the Act will be that the employees of such public undertakings as the Chittaranjan Locomotive Works, the Perambur Integral Coach Factory, the Vishakapatnam Shipbuilding Yard, the Hindustan Aircraft Factory, the Indian Airlines Corporation, the Air-India International, etc. would not be partners in prosperity and consequently, they would not be receiving the benefits under the Bonus Act.*

The Companies Act lays down an obligation on those who run the units of the Private Sector to publish annually a report and a balance-sheet of the working of the units. No such obligation is imposed on all the units run in the Public Sector. The Government invested, till the end of the Second Plan, the sum of Rs. 4,450 crores in Power and Irrigation, in Industries and in Transport & Communications. There is no authoritative source from which one can know what return the Government has got on its investments of

*Since writing this, in the face of public criticism some modifications with regard to bonus for Public Sector units have been made.

Rs. 1,405 crores in Power and Irrigation. Moreover, the Finance Minister does not give the country any clear idea in his annual budget speech as to what return the Government has been getting on the crores of rupees which it invests in a number of projects year after year. The public, as tax-payers, have a right to know what the Treasury does with the taxes they pay. No obligation is, however, imposed on the Finance Minister to do so. The continuous silence of the authorities in a vital issue of this character shows that they have failed to fulfil their obligations to the people in this matter.

Apart from the appointment of the Managing Agents or Committees of Directors of the Companies in the Private Sector which the Government fully controls, it also controls the appointment of Managing Directors even in a highly essential industry like the banking industry. Banking requires initiative and judgment at every step. It is unfortunate that it is not the judgment of the directors, who have to handle the affairs of the bank, that counts. They have to carry out the decision of the Government in this crucial matter. The powers which the Government has assumed in this matter can only strengthen the conviction that the Government has no faith either in the judgment of the shareholders or of the directors looking after the affairs of the Private Sector, that they will select the right men to manage their affairs.

The Government of India informed the Indian Banks' Association by their letter dated **13-7-1964,** that: "Companies and Corporations which are wholly owned by the Government or in which the Government owns more than 50% of the capital are expected, subject to administrative exigencies or requirements, to maintain their accounts with the State Bank of India or its Subsidiaries." Can it be said, if only the National Sector existed in the country, that it would be fair for the Government to call upon their Corporations and Companies not to extend their patronage to the Schedule Banks in the Private Sector?

What we have discussed in the above paragraphs gives a clear and conclusive idea as to the existence of discrimination between the two sectors.

The trend of thinking of the authorities seems to be that the Public Sector should be expanded in all possible directions. This economic thinking is based on ideological grounds. The desire that the Public Sector should cover as many fields as possible, and become the dominant feature of the landscape of the Indian trade, commerce and industry is based on ideological rather than economic grounds. It is true that we do not at present hear speeches regarding the threat of nationalising one industry or the other to the same extent as in the past. We should not, however, fail to read the signs of the time. The new policy of the Government is to obtain as large a holding of the shares of the units of the private undertakings as it is possible. In many cases, more than 25% of the holding of the shares of the private undertakings were obtained by the Life Insurance Corporation and the Unit Trust put together. The total holding of the shares of these two Organisations of the units of the Private Sector can go upto 40%. With such a large holding of the shares of the Private Sector, there would be no necessity for the Government to openly nationalise industries in the country. With such a large holding, the Government would be able to exercise such a control and acquire such a powerful grip over the Private Sector, that we shall soon find that nationalisation has entered by the backdoor. That would be a unhappy day, when the Public Sector would be controlling all our economic activities under the beguiling theory of promoting only the National Sector in the country. This would be contrary to the trend all over the world. Nationalisation and state ownership on ideological grounds are being given up even in socialist countries. Even communist countries are introducing greater scope for individual initiative and enterprise in the interests of rapid economic development. To adopt a policy of equal and fair treatment to both Private and Public Sectors and giving greater scope to economic realism rather than dogma would be in the real interests of the nation.

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

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

— A. D. Shroff

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215