

STATE TRADING



FORUM OF FREE ENTERPRISE

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

—Eugene Black

President, World Bank

INTRODUCTION

Inaugurating the Forum of Free Enterprise at a Press Conference in Bombay on July 25, 1956, Mr. A. D. Shroff said:

"In my judgment, one of the most sinister encroachments on Free Enterprise and, therefore, also on the democratic way of life is what is called State Trading. The Government and the ruling party may have their own philosophy on industrial matters. Those in this group do not agree with some of its policies. We feel that the extension of State Trading will ultimately deprive millions of small people of their right to choose their own way of living and, we think, therefore, it is very necessary to place before the country what we consider to be dangers of this way of thinking."

Since that time, State Trading has made further incursions into normal channels of trade.

The Forum of Free Enterprise organised a Convention on State Trading in Bombay on April 28, 1958. Mr. A. D. Shroff, President of the Forum of Free Enterprise, presided over the Convention. The participants were: Mr. N. Dandekar, I.C.S. (Retd.); Mr. S. C. Bose, President of Utkal Mining and Industrial Association, Calcutta; Mr. Murarji J. Vaidya, former President of the Indian Merchants' Chamber, and Mr. D. B. Futnani, President of Iron, Steel and Hardware Merchants' Chamber of India.

The Forum of Free Enterprise has great pleasure in presenting to the public in the form of a booklet the text of speeches given at the Convention.

STATE TRADING AND ITS IMPLICATIONS

by

A. D. Shroff

The Union Minister for Finance, Mr. Morarji Desai, recently advised business men not to dabble in politics. But unfortunately the trouble is that so much politics is introduced into business by our Government that we wonder whether we can ever discuss business without **referring** to politics.

In a state of planned economy with the objective of the establishment of a "socialistic pattern of society", with all the regimentation and regulation that we are experiencing from day to day, it is hardly possible for business men to discuss any problem without being unnecessarily' dragged into political problems. These problems are not of our creation. We have got no time to go beyond our business except when we find that at almost every stage and at every point in the building up of our business we are faced with practical political problems.

There is a very old Gujarathi proverb that "Ja Raja bana vyapari praja bane bikari", i.e., when the ruler takes to trading, the subjects must go a-begging. And that is what the State Trading will bring us to. For a long time, I have felt that of all the sins of commission and omission placed at the door of the **Government**, its **two** most indefensible actions are the

nationalisation of life insurance and the starting of the State Trading Corporation. Apart from all the other harm and danger that are created, I think the worst effect of State Trading is that it has so widely extended the field of patronage vested in Government that it has been demoralising outright. Despite the fact that the State Trading Corporation has been known in actual experience to do harm to trade and industry in its various ramifications, hundreds of merchants in different parts of the country who have come and complained to me, how their businesses which have been developed over a period of generations are being ruined today because of the activities of the State Trading Corporation, are mum. They are afraid to speak out. Under the planned economy and the extreme regimentation that we consequently get, the activities of the State Trading Corporation day by day come to command a wider field of business. The merchants have been demoralised. They have been terror struck since their very life and whatever trading is left to them depend on the mercies that are extended to them by government agencies. They are afraid of speaking out. But let me warn them that unless merchants realising their own interests now speak out their minds in larger numbers and in an organised way, they must be prepared for something worse than what they have experienced so far. My advice to them is awake, arise or be ever fallen. If they do not heed this advice and allow the State Trading Corporation to extend its tentacles further every day — I learnt a few days ago that S. T. C. may take over the distribution of petrol and newsprint — and if the trading community prefers to keep mum inspite of feeling the

pinch, then they have got to thank themselves, if ultimately they are wiped off. If traders do not realise that the dangers of the State Trading Corporation do not simply lie in ruining their trade but also depriving them ultimately of their individual liberty and the enjoyment of their fundamental rights, then they will rue the day much earlier than they expect.

Eminent people have referred to the great dangers of the State Trading Corporation. It is obvious, however efficient administrative officers may be, you do not expect a shoemaker to do the job of a watch-maker. That is what is happening today. The result is proving disastrous. The man in his own trade is completely destroyed. A few days ago I was in Nagpur when a few manganese ore traders came to see me and intimated to me as to what is happening there. Stocks are mounting up and it will not be very long before a large number of people interested in mining manganese ore may have to shut down their business because of the State Trading Corporation which can be described as the Twentieth Century East India Company.

All people should propagate the ideal which the Forum of Free Enterprise is placing before the public that the State Trading Corporation is one further evidence of an attempt to destroy democracy which is a most precious possession we have had since India attained independence.

LIMITS & LIMITATIONS OF STATE TRADING

by

N. Dandeker

I wish to confine myself to some general observations concerning the grounds on which I think rigorous limits ought to be set to Trading by the State and also as to the limitations to which State Trading is necessarily subject.

Now, quite frankly, when it comes to the first question, namely, what precisely should be the limit, in general terms, beyond which State Trading is not justifiable at all, and within which alone it can have some justification, the answer to a question of that kind depends entirely upon one's own political philosophy. The political society that we have adopted for ourselves,—quite irrespective of political policy announced by the ruling party, whether it is socialistic pattern, or communistic pattern or any other **pattern**—is to be found in the Constitution. There it will be seen that we have adopted in this country a **democratic** Constitution grounded on two very important foundations—a series of fundamental rights and a series of personal or individual liberties. This is the context within which we have all to work, including the State itself. The State is not entitled to disregard this context **because** that is the context within which both the State (the Central and State Governments)

as well as individuals and corporations—every one of us in this country—in fact have to work. For it is our "organic law", that is to say, the basis on which we are required to work and within the limits of which we have to work.

Therefore the first proposition that I make as to the limit of any State activity is that it must be such as in no way encroaches upon the fundamental rights or individual liberties, because the moment it does so it destroys the very foundation of our Constitution. Until the country changes that Constitution,—never mind what particular policy the ruling party may follow, for instance the Communist party has got its own political policy and so have several other parties;—that democratic Constitution which has given us certain fundamental rights and certain individual liberties,—the preservation of 'that Constitution sets a **definite** limit on any State activity. I deliberately refer to "State activity" in general terms because any activity of the State, and in particular State Trading, must be considered from that standpoint. Actually; State Trading is one of those activities which is **the** most dangerous, because it has no clear-cut boundaries, as is the case with state activity in Industry, such as the Steel projects or Hydro-electric projects. State Trading can be anything from international trading restricted to the Iron Curtain countries to a very wide range of international and internal trading; it can embrace the holding of stocks, the financing of **inter-**national trade, the owning and chartering of ships **etc.** It can thus go so very deep into the economic **fabric** of the country that it becomes a matter of the utmost importance to be clear in our minds as to what is **the**

limit within which alone the State shall function in this field and beyond which State Trading may not go.

'Has the State laid down any general proposition or test to limit its activities in matters of **that** kind? What is the specific test that one should apply when proposition is "Shall the State trade in commodities X or engage in a particular field of trading Y?" In other words, by what test should we be satisfied before we admit the validity of State Trading, so that if it does not satisfy that criteria it can be said to have overstepped the poor limit? It is a difficult problem but not too difficult. In any case an attempt to define the limit is very necessary and must be made. In my view the test can be formulated in the form of a statement in two propositions. In the first place, any new State activity in the economic field irrespective of what it is,—any activity of a kind that has not been previously undertaken by the State and which encroaches upon the domain of individual rights and **liberties**—must be *demonstrably necessary* in the public interests. Secondly—and this is just as important as the first because there is a lot of hot air talked over what is in the public **interest**,—**the** specific characteristic with reference to which one can test the validity of any given State activity is whether the desired purpose **is** not capable of being achieved equally well, if the activity in question were left to ordinary individuals **i.e.** to free enterprise, or whether it is essential that the State must step in. In other words, if it is a question of State trading in general, or shall we say the merits or demerits of State trading in specific things like cement, textiles, chemical manure etc.. the primary quest would be: is it *demonstrably necessary*

in the public interest? Is it, moreover, in the public interest that the State *and nobody else* should trade in any given commodity? Because that is one of the inevitable corollaries of State Trading. It is not merely a question of State Trading, but of *exclusive* State Trading. The first question therefore is: is it demonstrably necessary in the public interest that the State and nobody else should undertake a particular trade? Secondly, cannot anybody else, the ordinary citizens and corporations in the country, undertake that trade? Or be allowed to undertake that trade? Can the desired objectives which are to be achieved in the best public interests by State Trading not be achieved equally well in the field of free enterprise by the ordinary men and private corporations? To put it more specifically, cannot the desired objectives be achieved by the regulated operation of free enterprise of free men indulging in those trades? If the answers to those questions are unequivocally and fundamentally in favour of the State, then alone would the State be within proper limits in indulging in a particular trade; but not otherwise.

Now if you look at some of the things that the State Trading Corporation has been trading in—from these angles,—was it demonstrably in the public interests that it should have done so? Was it demonstrably in the public interests that it alone should be engaged in those trades and no one else? Was it demonstrably in the public interest that others should have been excluded? Was it demonstrably established that the desired objectives could not have been attained through all the other persons previously engaged in these trades, that is to say by ordinary Free Enterprise, you and I,

all of us engaged in the trade and commerce in the country? When we put it that way we begin to get somewhat startling answers; we begin to get a more clear-cut idea as to the limit beyond which State Trading cannot be allowed to go, except at the cost of our own fundamental rights and liberties and without **thereby** achieving any major over-riding public objective.

Now let us turn to the question of the *limitations* inherent in State Trade Trading, as distinct from the *limits* within which alone it should function. Of course, in general, the limitations from which State Trading cannot escape will be more or less the same as those which we encounter in any other field of State activity, e.g. in industry or public utility. In other words, there are certain inherent limitations in State activity in the economic field from which State Trading also necessarily suffers. Assuming, for example, that within given limits State Trading whether in iron and steel or manganese with, for instance, the Iron Curtain countries might be considerably to the benefit of the country and that such trade should be undertaken by the State, --even in an admitted case of that kind, State activity has very definite limitations. The first of these is the lack of autonomy from which these Public Corporations suffer. This may be inevitable and I don't want to join issue over it here. But the fact remains that there is factually and inevitably almost complete absence of autonomy; and when there is absence of autonomy what is the result? Let us not talk here vaguely in **terms** of public services being inefficient **and** incompetent; they are actually very much the **opposite**. What happens in the absence of autonomy is **that** you begin to get **backdoor** avenues for the impact

of political parties upon things with which they are not concerned. Also **backdoor** avenues for doubtful interests to exercise influence which they ought not to have,—not in that particular way and at the public expense. So the first limitation of State enterprise, **the** absence of autonomy, is rightly or wrongly a fact. Being a very serious limitation, it leads us, quite **properly**, to the proposition: State activity in this field should be limited to the barest necessities of the case **and** should not go beyond it.

Another serious limitation, specifically in relation to State Trading, is the unfortunate fact that the moment the State Trading goes beyond the limit that I indicated earlier, as is the case when it embraces internal trade in cement, trading in iron and steel, trade with America in Manganese, the trade in **boots** and shoes and so on,—the moment the State Trading Corporation extends its activities in that way, you get not only misuse but also abuse of the power vested in the Government servants or in the same persons acting in another capacity. Controls over imports and exports, the grant or refusal of licences,—these can be manipulated in numerous ways to suit the State Trading Corporation. They can manipulate transport priorities in collaboration with another wing of the Government to suit the requirements of the State Trading Corporation at the expense of some other person engaged in the same trade. They can create not merely a monopoly in a commodity, but also a monopoly in the procedures upon which the success **in** trade often depends.

Why should public servants have powers of that kind to abuse in the field of trading? But such abuse and misuse of power is unavoidable and inevitable. When you get concentration in the hands of officers of the State Trading Corporation of the bulk of the trade in various commodities, internally or externally, and those same officers, and their colleagues in charge of other departments of Government, have also at their disposal the power to grant or withhold licences, transport priorities and numerous other items of discretionary patronage of that kind, there is bound to be misuse if not abuse of these powers.

Then there is another thing. I won't call it misuse. That would be characterising as bad something which is essential. After all if the State has got to trade, the trading organisation has got to have finance. But I don't know whether many of you have had a look at the State Trading Corporation's Report. There is almost *unlimited finance* placed at its disposal. The effect of this on trading by other people is immense. Such huge and unlimited resources are not available to any other private person or trading corporation. It enables the State Trading Corporation to advance money here, to give credit there and do all kinds of transactions of a colour, magnitude and character which enable it in fact to acquire a *de facto* financial monopoly over the situation, and which in turn renders it impossible for any ordinary man or private corporation or for the ordinary importer or exporter, to compete.

If one takes into account these inherent limitations which count for abuse or misuse of power, it becomes

a matter of the utmost urgency that any proposal for State Trading must be scrupulously scrutinised, and rigorously limited to the very barest essential purpose. Otherwise what usually happens is that whenever occasion arises, whatever argument that suits the occasion *ex post facto* is pressed into service to justify the results of State Trading. If the S.T.C. makes profits, State Trading is justified on the ground that it makes good money for the State. If it does not make money but incurs losses, then State Trading is justified on the ground that it was in the "public interest" not to have made money in that particular trade or a particular commodity. If it makes too much money, as the State Trading Corporation did in cement, the charge of immoral profiteering is brushed aside on the ground that it was after all the State which earned the profits, even though admittedly it would have been highly immoral if any individual or private corporation made that money. Altogether, we get a whole lot of **hotch potch**, contradictory and conflicting explanations which merely suit the occasion and draw upon a whole stock of **doctrinaire** arguments, or commercial considerations, or non-commercial considerations, whichever may for the time being suit the occasion, to justify the results of State trading *ex post facto*. This leaves the field wide open for the Government to do (through the S.T.C.) in an uncontrolled way whatever they wish.

My submission is therefore that this tremendous increase in the State's activities in the field of Trading is far worse than any specific State activity, for instance the steel plants. You and I may disagree whether it shouldn't have been just one steel plant or two instead of three. But most of us will agree there **was** urgent

need for one or two more steel plants in the country **m** the highest public interest. Most of us will also agree that it was not within the capacity of free enterprise to increase the steel output of the country by anything like the figure contemplated. I do not **say** that the need was for an increase of five million **tons** **or** four or $3\frac{1}{2}$ millions; but something of that order of magnitude was certainly required. In a specific case **of** that kind, therefore it is comparatively easy to **come to** agreed conclusions. But when you come to **State** Trading I must **emphasise**, over-emphasise and re-**emphasise**, firstly, that the fundamental limits to State Trading must be set by things that are fundamental and guaranteed in our Constitution; and secondly, that State Trading, even when permissible within those limits, must be rigidly circumscribed. Otherwise, the **limitations** inherent in this field of State activity are so **injurious** that State Trading is most likely to get completely out of hand.

STATE TRADING IN MINERAL, ORES

by
S. C. Bose

I will deal with the mineral trade and its industry to which catastrophe has been brought by the State Trading Corporation. There are no fundamental constitutional or economic grounds for operation of the State Trading Corporation in the economy of our country. Unless we admit that our country has accepted a totalitarian pattern of economy, we cannot accept state trading. Taking for granted that the idea **of** S. T. C. is borrowed from U.S.S.R., even then it cannot fit in India because the productive organisation is in the hands of Private Sector. While admitting the necessity of certain controls in our foreign trade, the concept of a mixed economy which was accepted by the Parliament cannot be overthrown in the forceful operation of State Trading.

When the State Trading Corporation started its operations, I suggested that one of the three functions of international trade, that is, shipping, banking and insurance, which are economically called services, may be transacted in a limited sphere by S. T. C. This suggestion was not accepted. I was strongly against S. T. C. dealing in commodities, specially minerals, whose **trade** is highly technical in nature, requiring specially qualified staff at every point of transaction. Unfortunately the S. T. C. did not heed my suggestion

and bungled the mineral trade of the country. In this great country, nobody in Parliament has specialised knowledge in mineral trade to discuss the importance and prospect of mineral trade. By the by, have you comes across any policy which is called a trade policy of this country, which is passed by Parliament in the last 10 years of our national rule as it has passed two industrial policy resolutions, one in 1948 and another in 1956? What you have seen is the trade restriction and trade barrier which reduces proportionately gain of specialisation and reduces the real income. Is trade so unimportant a subject as not to be discussed. Mineral industry is the only industry which has fulfilled the plan target in advance and faced all slumps without any governmental help.

Now I will describe in short something about mineral industry on which mineral trade depends. When the view has been taken that mineral industry in India in general is yet in a underdeveloped stage—an infant industry — it should be carefully considered whether the Government should afford the necessary encouragement to those already experienced in the line or those who are interested to come in. In the latter case the following factors ought to be taken note of:—

- (a) that exploration of new deposits, exploitation and development of mineral resources involve generally operations of more costly, hazardous and uncertain nature, than in any other enterprise;
- (b) that large-scale investment of capital is needed than in ordinary trading or manufacturing industries;

- (c) that capital has to be blocked up indefinitely and with uncertain hopes of locating deposits of minerals;
- (d) that a large amount of abortive expenditure has to be incurred before an economically and commercially workable deposit of minerals is located;
- (e) that world market conditions at present govern the demand and prices of minerals to a much greater degree than those of other industrial goods. Depression in demand for minerals in world market for a long time is a regular feature in our experience. Expenditure incurred during such periods of depression are simply a loss to the industry;
- (f) that due to uncertain world market conditions neither assessment of profits from sale of minerals nor budget of investment in the industry can be made;
- (g) that the above reasons, added with persisting road and rail transport difficulties, have so far proved a serious disincentive to the development of mineral resources; and
- (h) that expenditure incurred for exploration is an essential preliminary to establishing the occurrence of deposits before actual mining operations can commence. Since such exploratory works may many a time end in failure, no estimate of amount to be spent on this account can be made.

The ills of this industry are many, some of which cannot be remedied within a reasonably short time. Discovery of new deposits and the economic working

of the mines up to the installed capacity of each such unit are matters which can be successfully dealt with by persons who have sufficient experience of its working technicalities.

Undoubtedly, rapid development of the mineral industry is very important from the point of view of national economic progress and every encouragement should be provided to this industry.

The complicated nature of ills of this industry needs careful examination. The mines are generally located in dry interior of the country and many of them are situated at a distance of about 500 miles from the nearest port, and 50 miles from the railhead. The full exploitation of country's mineral resources is impracticable on account of lack of railway and road communication. The accessibility to the deposit areas has to be rendered possible by extension of railway lines and loading facilities by construction of railway sidings. I mention this practical handicap of this infant industry to establish that the slightest drop in the sales may result in bankruptcy in this industry as the overhead expenses have to be continued. The co-ordination factor between the total output and total sale has so efficiently been managed by our experienced trading mechanism previously that it never allowed sales to drop below the level of output. You will be astonished to know that Low Grade Manganese Ore Mines in India, especially in Orissa, have already closed down due to S. T. C. See what is happening in Andhra also. Stocks of even low grade ore in India today will be not less than two million tons. Unemployment on this account alone will not be less than 50,000. Do all these factors fit in a developing economy which we

profess to have? But S. T. C. selling only 65% Fe. iron ore resulted in accumulation of **unmarketable** product and thus the capital co-efficiency of this industry is completely liquidated. You will be sorry to note that nearly 35% of the total iron ore mines in India have stopped their production. They were producing 58% iron ore which was a traditionally rich source of export **previously**. The changing of the pattern of trade by S. T. C. owing to its inexperience and lack of knowledge is responsible for this disaster. When mineral industry is liquidated how can there be any trade?

You will readily concede that mineral ore industry is a highly technical, specialised one and its capital co-efficiency is distributed over a long period by its operators. The theory of windfall profit never exists or is applicable to the mining industry of India at present or in coming 10 to 50 years because of inadequate transport capacity to the extent of its producing **or** operating capacity. The Government, instead of rehabilitating the economics of this growing industry, throttled it by introducing a State Trading Corporation. The iron mine owners of this country have fetched the State Trading Corporation a price on railway wagon at Rs. 12/- per ton and manganese **mine**-owners at Rs. 40/- per ton. This is the business acumen so obligingly published in the ivory tower language in the first balance-sheet of S. T. C.

S. T. C. has dishonoured 40% of its manganese contracts entered into with foreign buyers which retrained the private sector's foreign market and dislocated our private traditional trading pattern. In Iron Ore also, out of its contracted quantity of 13 lakhs tons to

people now will understand what is the real profit S.T.C. has earned and they will be convinced that S.T.C. has lost to the tune of double the profit in form of income tax for same volume of business. The country is struggling to collect foreign aid and loan to fill the gap of foreign exchange in the Second Five-Year Plan. The only solution to this critical national problem is to increase the internal revenue and foreign exchange. I believe firmly that State Trading has dislocated the existing trading mechanism in the country and that is the main reason why the implementation of Second Plan has been disturbed.

Is monopoly possible under our constitution? But S.T.C. has forcefully monopolised iron ore export in this country without assigning any reason. The S.T.C. has dislocated the well-oiled organisation and competitive economy of mineral industry. The S.T.C. cannot claim to be an economical marketing **organisation** as it does not satisfy either of the factors, that is creation of time, place and possessions utilities. The S.T.C. has neither delivered any goods to the mining industry nor the country at large but abused the monopoly to its maximum in demoralising a large section of business men of this country. You must have read in various newspapers the shocking news of **corruption** in various departments of S.T.C. such as **favou-ritism** in distributing orders, in appointing staff and stevedores, withholding payments, the non-fulfilling of contracts and harassing suppliers. I understand a Chairman and a Director are being appointed to the State Trading Corporation from the private sector. But I am afraid that they will not be able to break the ice. Further I have cautioned my senior colleagues

that their failure in official capacity will have a serious repercussion in the business field.

I categorically charge the S.T.C. of bringing an acute slump in manganese ore market. In a very short time they will bring the same in iron ore also. I can boldly say that its monopolist price-maker **be-haviour** has annoyed our buyers abroad and they are aggressively searching other sources of supply. **The** prospect of Indian mineral export would have been even Rs. 150 crores instead of Rs. 33 crores by the end of the plan period should we have the required wagons. But the S.T.C. has killed the goose laying the golden eggs. Even now it is not too late. **I** S.T.C. gives up the mineral trade, we will definitely build up the same but we shall require three years to repair the damage the S.T.C. has done in one year.

Is it not a fact that the private sector has been assured in the revised industrial policy that they will not be interfered with in their industry or trade? How can S.T.C. now forcefully take my produce on an uneconomic price and devour my capital also? If I interpret this action of the Government as forced nationalisation of mines without compensation, strangulating my producer's right to market my own ore, should I be wrong? Such forceful strangulation is not evident even in totalitarian countries.

Mineral trade and industry have strongly resented the commerce and Industry **Ministry's** motivated Press note of 22nd June 1956, through three conventions, one at Calcutta, one at Nagpur and one at Bombay. Calcutta convention was inaugurated by the late Governor. Dr. H. C. **Mookherjee**, and **the**

Bombay convention was presided over by Mr. S. K. Patil, the present Union Minister of Transport and Communication. All these conventions assured the Government of their full co-operation in abiding by any regulations and assured the increase of production at any quantum the Government desires. Unfortunately, all our sincere efforts failed and the Government on the other hand with a vindictive approach started to penalise the mineral trade and industry in an attitude which nobody can even imagine. It approached Chief Ministers of States to order mine owners to sell their produce at uneconomic price to S.T.C., and to withhold grant of concessions which are legally and legitimately the property of the private sector. The initiative in a mineral industry is something different from that in other industries. A mineral prospector must stake his life and entire fortune in mere speculation of search for hidden wealth. But what is the result? One hundred crores of rupees or more than that have been invested in the dense forests and uncommunicated areas which were discovered by private sector. It is **now** denied the right to operate. Whatever areas are already leased are also forcefully meant for surrender by private sector by denial of marketing facilities. India can build 10 more steel plants and hundreds of other factories but to achieve this target the raw-material producing units (Ores) should be developed first. But unfortunately our country is ruled by assumed knowledge and degrees conferred **from** the ivory tower of New Delhi without universities. Self-assumed economists, planners, educationists, engineers and whatnot are mending our destiny.

STATE TRADING AND DEMOCRACY

by

Mr. Murarji J. Vaidya

In examining the impact of State Trading on **our** democratic way of life, in the first place, let us examine why it was necessary for the Government of India to set up the State Trading Corporation. Was it with a view to promoting our exports? Was it with a view to developing the mining industry? Was it with a view to helping the trader, or the people of the country? Or, was it with a view to earning more profits?

At the time of the formation of the Corporation, it was announced that the private trader in this country found it extremely difficult to deal with the communist countries who wanted to trade with our traders, **because** the organisational set-up was centralised in **those** countries. It was said that our traders found it difficult to deal with those centralised 'set-ups, because individual traders did not have enough bargaining power vis-a-vis centralised organisations. It is interesting to examine what has happened since the **State** Trading Corporation came into existence. All the deals negotiated with Communist countries by the S. T. C. have been more or less on a barter basis. On the other hand, when any proposal is made to the Government of India by any private individual to **import** machinery against a barter deal, permission is **denied**

on the ground that the Government of India is against such deals as a matter of policy. But the very same policy is set aside so far as the S. T. C. is concerned. Moreover, the deals undertaken by the S. T. C. have more often than not resulted in the Communist countries rejecting a large portion of the goods sold to them with consequent loss of prestige and revenue to the Exchequer. Ultimately it is the tax-payer who has to bear the loss to the Exchequer resulting from such deals concluded by the S. T. C. If an inquiry is to be held in the working of the State Trading Corporation, probably more sensational results will come out than is the inquiry connected with the Life Insurance Corporation investment. I am not saying that with a view to casting any aspersions on the eminent public servants who are in charge of S. T. C. It is not their fault. The fault lies fundamentally with the manner in which the Government of India wants the State Trading Corporation to function.

In the S. T. C., there is the combination of Government power, with all controls which the present "socialistic pattern of society" confers on the Government, with the added advantage of being able to confer favours on all and sundry who agree to become part and parcel of this organisation. The system of registered traders with the S. T. C. was introduced. According to this system, all those traders who want to do any business with any foreign country must register themselves with the S. T. C., and if they do so, special facilities are given to them, and special requests are entertained, to give them business which in the normal course would not be allowed. *Ad hoc*

licences have been issued to the S. T. C. by the Government outside the scope of the import policy. In a democratic set-up, is it right for the Government to go outside its own declared policy which would apply to every citizen who is equal in the eyes of law in a democracy and to go out of its way and issue special licences to an organisation set-up by itself which is called a private limited company and is therefore not open to scrutiny by the public in the same manner as a public limited company owned by private citizens? This is the most serious objection to the setting up of Government organisations as private limited companies.

The President of India is the sole shareholder. Nobody outside can question the working of this Corporation. It is only when there is an inquiry or when questions are asked in Parliament that facts come out into the open. In the meantime, all irregularities are allowed to go on.

What is the position with regard to trade with Communist countries? In commodities like pepper, which is a very important dollar earner, the position before the S. T. C. came into being was that the United States used to buy a major portion of our pepper (nearly 70% of our pepper exports). After dealings with the Communist countries were started by the S. T. C., the Communist countries started purchasing large lots of pepper from our country not necessarily for consumption within the country but in order that they may be able to give in return such commodities, machinery or other exports which normally we would not have purchased. If you take Russia, for example, Russian machinery is not suitable to our country

because the manner in which it is built, the calculations of the screw-threads and the systems of measurement which are embodied in the Russian machines are quite different from British standard specifications to which we are accustomed. Therefore they are not convenient and inspite of the huge amount which the U.S.S.R. has spent in organising exhibitions of their products in our country they have not been able to sell many of their machines to our factories simply because they are not suitable. But when it comes to barter arrangements like this, they buy an important commodity like pepper which is a great dollar-earner and they sell back to us commodities which we would not have normally purchased from them. And what is the result afterwards? Whatever surplus is left with them after their internal demands are met, they sell at lower prices in the foreign markets and ruin our other export markets with the result that today our export of pepper to America has been reduced from 70% to less than half of our previous export. This has particularly resulted in a loss to our foreign exchange. This is just one example of the manner in which, probably unconsciously, the S. T. C. has landed us into a difficult and a detrimental position with regard to our trade with important countries like the U. S. Many more examples can be quoted of similar activities of the S. T. C. I am afraid that quite unwittingly, they have brought the country to the impasse without probably meaning it.

Then, there is this question of centralisation. A time may come when each and every importer and exporter will have to be at the mercy of the State Trading Corporation if he wants to carry on his trade. And when every trader continues to be at the mercy

of the State Trading Corporation, a body owned by the Government of India and a body manned by the servants of the Government of India who have merely to carry out the orders that have been given to them. then, in such a case, will there be anything like freedom, individual liberty and democracy left. in this country? That is the great danger that is facing us if the activities of the body like the State Trading Corporation are continued.

I may tell you that one of the reasons that led to the establishment of the Forum of Free Enterprise was the establishment of the State Trading Corporation. It was felt by those who organised the Forum of Free Enterprise that the time had come to call a halt to the expanding activities and tentacles of the octopus of government control over the activities and liberties of individuals in this country.

Now, instead of curtailing the activities of the State Trading Corporation, these activities are being expanded. They have resulted in the diversion of our trades to unremunerative channels. It has already been explained as to how the trade in mining products and mineral ores and exports in iron ore and manganese has been brought to a very ruinous position as a result of the policies and practices adopted by the State Trading Corporation. And who is going to repair the damage that is being done? One fine day, there will be an outcry in the Parliament and Government will probably order that the S. T. C. be closed down and then what shall the traders who have lost the contracts with the foreign buyers do? All those bad impressions which have been created in the minds of the foreign

buyers will stare us in the face and we will be faced with a most unenviable situation when we have to start de novo to build up contacts in the very important mineral trades which are capable of earning Rs. 150/- crores of foreign exchange in a year if the business is conducted on right lines by people who know the business.

Now, coming to the second aspect of the problem: if the government believe that in dealing with communist countries or any other countries it was the influence or the pressure which Government of India would bring to bear on those countries that would be helpful in developing our trade, I would like to put a question to Government. The Government of India have set up a special department, a special directorate called the Directorate General of Export Promotion of which the distinguished head is the same administrator who is the Chairman of the S. T. C., namely, Shri K. B. Lall. He is a very able administrator. He is the same gentleman who has been entrusted with the task of promoting our exports in his capacity as Director General of Export Promotion. As such, he would have been able to serve the cause of the country and serve the cause of export promotion much better than he has been able to serve as chairman of the S. T. C. I have a feeling that he has to work under great difficulties in the State Trading Corporation and he has to make a good success of a very difficult job that has been entrusted to him.

Now is it not the duty of a democratic government to follow policies and practices which help the ordinary private citizens who are carrying on their import or

export business and enable them to develop the trade not merely in the interests of those particular individuals but also in the interests of the country at large? Because, by promoting exports we are earning foreign exchange which will enable us to get over the difficulties of foreign exchange and make our plan a success. Instead of doing that, the Government has gone into State Trading and are trying to deprive the ordinary citizen who has been carrying on his import and export business under great difficulties and have created a very complicated and a very detrimental situation which will ultimately have a very deleterious effect on the economy of our country.

Finally, the power to confer favours, the power to give special permits, the power to give special facilities, the power to register the traders and the power to make appointments in the State Trading Corporation — all these powers are now concentrated in this organisation known as the State Trading Corporation which has been expanding its activities from month to month, and which is being administered by bureaucrats. The result is that the Government today is in a position to confer these favours. Such power to confer these favour in a democracy is most dangerous. If the Government, that is to say, the ruling party, which is the government of the day, is in a position to confer favours as in communist countries where all trade and economic activities are centralised in government, then is it ever conceivable, when a large number of people in the country come to depend for their living on the State Trading Corporation, that they will ever vote against the ruling party? Will there be any possibility of having a strong opposition, which

is the very *sine quo non* of the working of a democratic system of government? We have adopted the system of Parliamentary government as the accepted form of **government** in our country. But the manner in which we have been conducting the economic activities in our country, particularly through the State Trading Corporation and so many State-owned enterprises, is, I am afraid, leading to a situation where the working of parliamentary democracy will become very difficult if not impossible in the years to come.

STATE TRADING IN STEEL

by

D. B. Futmani

It will not be wrong if I say that the State Trading Corporation is not a commercial venture but may appropriately be termed as a political misadventure.

Of late we have heard of the Life Insurance Corporation scandal, but this and other scandals which are going on in the country knowingly or **unknowingly** are nothing when compared with what is going on in the name of state trading. Who is responsible for such scandals, I myself cannot say at this stage; but surely the most efficient and capable officials we have in the concerned ministries should look into the matter.

Iron and steel is one of the biggest, if not the biggest, items in which trading is being indulged in by the Government. The total imports of **iron** and steel in the country on both the governmental and commercial accounts are of the order of Rs. **1203 crores**. This works out to as much as **20%** of the country's total foreign exchange requirements. Of this **amount** of Rs. 120/- crores, barely **20%** represents a figure for which imports take place on private account. This figure includes both imports for trade as well as industry. The remaining Rs. **100** crores are paid away by the Government every year on imports of **steel** by the State.

I have been wondering why such an important item as steel did not so far attract the attention of the public. Much has been said of state trading in other articles such as cement, manganese ore and iron ore, but nothing has been heard of iron and steel which is one of the biggest items.

It is interesting to know that state trading in steel was started by and at the suggestion of one of the ex-Secretaries who is now serving a term of imprisonment. It was about six years ago that the Government thought of buying steel on government account and it was the first purchase in steel that was made by the Government through this ex-Secretary, who went overseas to acquire as much as 2,00,000 tons valued on present basis at Rs. 15 crores, though it will not be an exaggeration to say that the Secretary could hardly claim to possess any experience whatsoever in steel to be entrusted with a purchase of such magnitude.

Without imputing any motives to anybody in the Government and with an apology in advance to them, I may state that the experience available at the hands of businessmen is by far not only larger but more practical than the experience of State employees, who may be well fitted for judicial and/or administrative posts only.

In business we have persons who do not only have experience of their own, but who, so to say inherit experience from their fathers and in several cases their grandfathers and great grandfathers. Surely, howsoever capable the State employees may claim to be, even they themselves cannot deny that they cannot come

up to the mark of a businessman who has passed through all the tempests of life. There can be no two opinions about it that he is the only right person who can handle appropriately purchases of the State. Civil servants, with all due respect to them, howsoever capable they may be, cannot claim to be experts in trade and commerce. In fact, in my opinion, they would be the last persons to strike business deals advantageously. In our iron and steel business there is a saying "Na Janaanewalla Baba Levey, Pota Bechey", meaning thereby that an inexperienced grandfather purchases and the grandson sells. What is meant is that if an error is committed in specifying sizes, or something unsuitable is purchased, the same cannot be sold for years together, as it is unwanted material. Let me mention here an experience of my own. When I first came into business, I was deputed to attend an auction of steel at Jodhpur Railway Yard. I remember the rate of steel then was in the vicinity of Rs. 7-8-0 per cwt. In that auction I went in for a lot of steel Flat Bars which were off-sized, and I thought I got them very cheap at Rs. 5/8/-. You will appreciate that the price I paid was about 33% cheaper than the standard price, but the materials being of non-standard size I was not able to find a buyer for the same for nearly eight to ten years, till the War broke out or else it would have had to go for rerolling purposes which as well would have resulted in a heavy loss.

In Madras, as a controlled Stockist, I had been allotted certain steel in the year 1949. Till 1954, I was not able to sell even 10% of these. It is only

now when steel is in short supply that I find that the goods are being used for rerolling purposes.

You will thus see that it is not the price alone which is to be considered. It is the materials, its quality, its sizes, its detailed specification and the use to which these materials are to be put. I can safely state that the purchases made by the ex-Secretary were at far higher prices than those ruling in the market then. As said above, besides the prices, several of the sizes purchased were such that beyond locking up our much wanted valuable capital, they served no useful purpose.

The policy of state trading having been once initiated, these purchases made by the ex-Secretary have been followed by other purchases to the extent of several hundreds of thousands of tons. Some of these have been made from Communist countries. Statistics of such purchases are not available to the public. If they were made available, I feel sure much could be said against these purchases. I can tell you that the Government has paid in case of most of these purchases fancy and fabulous prices on the pretext that some of the countries who are friendly to us offered us the goods on long-term credit or like. with a view to enabling us to implement our Second Five-Year Plan. You will agree with me that it is not right on our part to acquire the materials on such fancy and fabulous prices. To cite an instance, Billets, which are one of the most standard articles in steel trade, have been purchased by the Government at a price of about £55/- per ton c.i.f. while I know for certain that their price never in the history of steel trade,

has exceeded £48/- to £50/- per ton, depending on size. Steel plates are said to have been purchased by the State at £73/- per ton while they were available then, at far cheaper prices in the vicinity of £58/- to £60/- depending on size. If the huge difference in the prices paid and the prices ruling then is worked out on the basis of quantities purchased at such fabulously high prices, you will be inclined to agree with me and express a view that where trade is concerned, in the interest of the economy of the country and with a view to saving all that is possible in prices, talents available in trade should be rightly requisitioned and private traders' experience should be taken advantage of. With efficient officers at the top and the co-operation of the trade there can be no doubt the results that would be achieved by the country will be marvellous. All that is required is that the trade should not be kept unaware of what the Government is doing, but in the interests of the country must be taken in full confidence.

It is an undisputed experience that when we go to buy things in extra large quantities, we have necessarily to pay a very much higher price than when the supplier comes to your door to sell them to you. The Government estimates the country's requirements and expresses its desire to purchase them. Not only that, the Government goes to the extent of sending delegations to other countries to make these heavy purchases at a time. It is only usual that when such delegations call on manufacturers, the latter are led to form a cartel or a syndicate among themselves with a view

to exacting fancy and fabulous prices. For instance, an overseas manufacturer offered 10,000 tons while our Government required 35,000 tons. His price for 10,000 tons which he can supply is quite cheap, but if he has to quote the price for the entire requirements of the Government, viz., 35,000, he has naturally to try elsewhere. If he goes to buy that 25,000 tons elsewhere for which he can get a higher price, why should he not endeavour to have the same higher price for his goods, as well ?

While to a businessman going to foreign countries no foreign exchange is made available, to Government officials going abroad to buy goods at fabulously high prices, any amount of foreign exchange is made available. The best method in my opinion would be to invite tenders, either global or countrywide, latter preferred, only in quantities as we need them from time to time. Much better it would still be to invite offers through trade without expressing our requirements specifically and we will see that in this way our experienced trade will be sure to search out goods and get them for the country at very competitive prices.

Ever since our Government withdrew from world market for want of foreign exchange, the prices of steel abroad have crashed and the price for steel bars has dropped from £ 53 to only £ 34 per ton. The difference is as much as over 40%. Does this not show plain as daylight, that because our Government placed the full picture of its requirements before foreign suppliers, it had to pay 40% more in value?

Not only this, but as regards steel billets, they were purchased in the vicinity of £ 50/- per ton but are today being offered in the vicinity of £ 34. Our Government which entered into large deals in terms of several hundred thousand tons, *inspite* of the goods having not been shipped in time and *inspite* of the fact that the prices have gone down by 40%, is allowing extension of time for shipment !

What an amusing contrast it is ! In case of purchases made by the State, even though the country is losing heavily, extension of time is granted on the ground that contractual liabilities have been entered into. But where such contractual liabilities have been entered into by the trade, and though money is saved thereby, extension of time is refused pointblank. It is perhaps only the State officials who are anxious to save their reputation with their friends abroad by meeting their contractual liabilities, but the trade is even denied the right of carrying out their concluded contracts.

It will not be out of place to mention that business is often done by those constantly in trade, with the benefit of fall clause. And for the same value where 5,000 tons were purchased, as much as 8,000 tons were brought in. The State takes no advantage of this and hesitates to save money in this legitimate manner. No doubt applicability of such a fall *clause* has got to be agreed to between a buyer and a seller at the time of entering into a business deal. Since it does not affect any individual company or corporation, large amounts are wasted in this country by the Government.

A few months ago it was reported in the Press that a quantity of 5,00,000 tons steel was purchased by the Railway Board. On an estimate of average rate of Rs. 700/- per ton, its value amounts to Rs. 35 crores. A special delegation had gone from this country to the Continent to purchase this quantity, which could have been purchased far more advantageously by private traders sitting in this country.

I am not aware of the checks which the Parliament may be exercising on such purchases, but I feel sure that the circumstances surely warrant complete overhaul of the policy of state trading in steel.

To the growing stream of enlargement of State Trading has been added somewhat unexpected strong current of disapproval of Mr. Morarji Desai, till recently Union Minister of Commerce and industry, on the eve of his taking over the Finance portfolio. Mr. Desai categorically turned down the suggestion made by some M.Ps that the State Trading Corporation should take over the export of tea. He stated, that he has no doubt that if the State Trading Corporation took up the export of tea, not only that organisation has to be wound up, but also the whole Government would be in danger. If this is the view expressed even by our Finance Minister, we all wonder why the Government is keeping out businessmen of world-wide experience and at heavy cost to the State, giving his functions to its officials to perform.

As said by Mr. Morarji Desai at Ahmedabad recently, if the Chambers of Commerce and industrial

bodies are not wanted to run the Government, surely the former expect the latter not to come in to run their commerce and industry.

What I feel most surprised at is that when almost all our profits are taken away by the State in one form or another, in the name of one tax or another, why are we denied the right to work for our country to its greater advantage? If one in trade buys anything, he has got to make sure that what he is buying will not land him in loss. Does such a thought ever come into the minds of State officials when they go to make up any commitment? I am reminded of a maxim "Masjid ko tala nahin, kamore ka kabhi dewala nahin" meaning that a mosque is seldom locked and kamora is never bankrupt. Howsoever enormous losses they may go to make, it is the State which has to bear the same.

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

—A. D. Shroff

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