

**RETHINKING ON PUBLIC
SECTOR**



FORUM OF FREE ENTERPRISE

SOHRAB HOUSE, 235 DR. D. N. ROAD, BOMBAY-1

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

—A. D. Shroff

(1899-1965)

Founder-President.

Forum of Free Enterprise.

RETHINKING ON PUBLIC SECTOR

INTRODUCTION

When the Forum of Free Enterprise was launched in 1956 as a non-political organisation to educate the public in economic affairs, and particularly on the role of private enterprise in economic development of the country and the close relationship between private enterprise and the democratic way of life, there was a controversy on the role of Private and Public Sectors in the economy.

The Forum "Manifesto" declared: "We believe that in the circumstances prevailing in our country today, there is ample room for State enterprise to function alongside of Free Enterprise in the service of the people. Monopoly of any kind, whether State or private, is undesirable. Should any single organisation arrogate to itself the right to do everything, it would upset the delicate mechanism of free and democratic social order. Under monopoly conditions, the consumer would be forced to buy only that which is offered to him; the worker would find himself gradually deprived of his right to choose his job, to demand higher wages, and to deny his labour; the investor and the entrepreneur would be denied the opportunity to promote the development of industries of their choice."

Some six months later, in another statement, the Forum declared: "What we do not accept is the theory that this State-owned sector should continuously expand until it dominates the national economy, for then, as night follows day, will there be a regimentation of life, totally at variance with India's outlook and traditions, which have always recognised the place and worth of the individual in society."

In the last 15 years, the Public Sector has expanded in India, but there is serious rethinking among even those committed to the ideology of socialism on the proper role and function of the Public Sector. For instance, it is now

recognised that the Public or State sector should be operated on a profit basis, further that it has not fulfilled earlier hopes of being a model of efficiency and industrial harmony. In response to numerous requests from our members, this publication has been issued. This booklet gives a brief note on the history and arguments for and against Public Sector and some observations on the working of the Public Sector from the Parliamentary Committee on Public Undertakings, the Press, trade union leaders, Ministers and others.

It is hoped that this little publication would help the citizens, who are the real owners of the Public Sector, to understand its working and to evolve a pragmatic policy on their future.

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

PUBLIC SECTOR IN INDIA

I. Introduction:

Mr. M. R. Masani's publication, "A Plea for the Mixed Economy", is said to have influenced the thinking of India's Prime Minister, the late Mr. Jawaharlal Nehru, who was the architect of the first Industrial Policy Resolution of 1948. A highlight of Mr. Masani's plea was that "the mixed economy will depend less on ownership and management and more on control to see that the interests of the community reign supreme." He urged that since India's problems were big, neither the State nor private enterprise by themselves could solve them, but both had to develop the economy.

The first Industrial Policy Resolution reflected this philosophy. The following passages from the Resolution are interesting:

"In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

"The problem of State participation in Industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in Industry as widely as may be desirable. The Government of India are taking steps to remedy the situation; in particular, they are considering steps to create a body of men trained in business

methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play."

Mr. Nehru's visit to Communist China was a turning point in his thinking. Enthused by what he saw there in 1954, he persuaded the Indian Parliament to adopt a "socialistic pattern of society" for the country and his own party to adopt the same goal at Avadi in 1955. This new ideology was subsequently reflected in the Second Industrial Policy Resolution of 1956. The strategy of the Second Five-Year Plan was based on that ideology.

The Resolution of 1956, using the terms Public Sector and Private Sector, emphasised the preponderance of the former. It declared:

"The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role."

Since July 1969, with the nationalisation of 14 leading commercial banks, the accent on Public Sector has increased.

II. Forms of Public Sector Undertakings:

The Public Sector undertakings are organised in one of the following forms:

(a) As companies under the Companies Act, all the Shares being held by the President of India (excepting the qualifying shares for directorship or minor shareholding by private parties). Most of the Public Sector undertakings come in this category.

(b) Autonomous Corporations created by Parliament and subject to Government directions and control; for instance, the Life Insurance Corporation of India.

(c) Departmental or ministry enterprises such as the Posts and Telegraphs or the Railways.

The Public Sector is not confined to the Union Government though it is prominent. The State Governments have their own Public Sector units. Once again, even local bodies have their own enterprises such as BEST under the Bombay Municipal Corporation.

III. Number and Investment:

In 1950-51, the number of Central Government undertakings was only 5 with an investment of Rs. 29 crores. In 1968-69 the number had increased to 86 and the investment had exceeded Rs. 3,500 crores. By 1973-74, when technically the Fourth Plan ends, the investment is scheduled to go up to Rs. 6,400 crores.

IV. Arguments for Public Sector:

Among the numerous arguments in favour of Public Sector, the following are important:

1. Under-developed countries are in the grip of a vicious circle of poverty and stagnation. The masses live on a subsistence level, i.e. they consume what they produce. Therefore, there are little savings for investment. Since investment does not go up, production also stagnates. This means, the income of the people remains static and the vicious circle continues. In order to break this, the State is required to mobilise resources in a big way, and to apply the scarce resources to some critical sectors of the economy to increase production, income and savings. The critical sectors earmarked for the Public Sector are mostly what are described as heavy industries or infrastructure industries. The need for the Public Sector to set up these industries is two-fold:

(a) The investment required is so massive that private enterprise is unable to raise the resources;

(b) These are long gestation period industries and, therefore, private capital even if available is unwilling to come in since quick returns cannot be made.

2. The second argument is that the commanding heights of the economy should be occupied by the State in public interest. Productive resources of the community should be controlled by the Government.

3. The third argument for the Public Sector is that it is required to break the concentration of economic power in the hands of private citizens or groups. There are industries where the State should step in as otherwise technological advances will enable private individuals or groups to amass considerable economic power.

4. The fourth consideration is that whereas the Private Sector works on the profit motive, the Public Sector should work for social good.

V. Arguments against Public Sector:

The above arguments are countered in the following manner:

1. The heavy industries which are set up in Public Sector are not required at this stage of our economy as they result in wastage of resources. For countries like India, agriculture is the basic asset and even if the limited available resources are applied to the development of agriculture, it can generate a demand for consumer goods which in turn generates demand for producer goods which in turn generates demand for heavy industries. At each stage, enough savings are generated for investment in the next stage. Strains and stresses are thus avoided in economic development on this classical pattern.

The heavy industry priority pattern introduced by communist countries has come into heavy weather. Even mainland China, which stands for dogmatic communism, has been disillusioned. Recently the army paper, "Red Flag" declared:

"When agriculture and light industry are developed

it will be possible to turn out large quantities of farm produce and rural sideline products and light industrial goods to satisfy the people's daily needs and to accumulate more funds for building a heavy industry."

The application of limited resources to agriculture results in production of more wealth and also creation of large number of jobs as is indicated by the following figures given by Prof. P. C. Mahalanobis who himself is a champion of heavy industry priority and framer of the Second Plan strategy.

For every crore of investment in	Jobs created	Additional Resources Generated
Steel	500	Rs. 14 lakhs
Consumer goods	1,500	Rs. 33 lakhs
Agriculture	4,000	Rs. 57 to 69 lakhs

2. The argument about commanding heights of the economy and breaking concentration of economic power in private hands no longer holds good as socialist thinking has undergone a radical change in Great Britain and Europe where socialists in power had experimented with such ideas. The objections from socialists are mainly three:

(a) Production in Public Sector sags. In the words of Mr. Christopher Mayhew, British Labour M.P., "Many of us hoped nationalisation would foster a new climate in society. This has not happened. It has failed to improve labour relations. Contrary to our expectations, bad labour relations seem to go with low rather than high profits and to depend very little on the ownership of industry. Centralisation and monopoly normally produce inefficiency and complacency and arrogance towards consumers. What was once the mainstay of our socialist faith has vanished."

(b) Far from enlarging freedom of the individual, Public Sector results in the creation of huge bureaucracies which are impervious to the needs of consumers and antagonistic to labour and become a threat to individual freedoms.

(c) The Public Sector personnel become experts in avoiding whatever little Parliamentary control is exercised over them.

The dangers of such private empires built by bureaucrats in the Public Sector who enjoy power without accountability is highlighted in the following passage in a study of nationalised industries in France and Italy.

“Civil servants sitting on boards of directors receive special indemnities, fees, reimbursements of expenses, and other extraordinary financial compensations which tend to multiply, several times over, their salaries. In part this is the consequence of the generally unsatisfactory level of salaries among the higher government employees. But it is also a manifestation of a spirit of greed, manipulation, and protection of selfish private interests as a result of which no good management and no proper defence of the general welfare is possible. Private empires are built, with bureaucrats developing into powerful ‘operators’ capable of influencing the course of industrial activity in a manner not subject to public controls and often intended to protect similar positions of fellow bureaucrats or to satisfy the private interests of businessmen and politicians, from whom, of course, bureaucracy expects protection, in case of need.”

—(“Nationalisation in France & Italy” by Mario Einaudi, Maurice Bye and Ernesto Rossi)

In view of all this, thinking socialists have come round to the viewpoint that nationalisation and Public Sector do not lead to socialism but away from it. In an analysis entitled “Twentieth Century Socialism” (published by Socialist Union of Great Britain) the authors say as follows:

“The ultimate source of the confusion and division which afflicts socialism today is that its true ends are being forgotten. The doctrinaires have deified the means that were once thought to bring certain salvation, into ends in themselves. For them socialism is measured in terms of

more public enterprise, more planning, more money spent on social services—irrespective of the results.”

Sweden, a country ruled by socialists for 40 years now, has over 90 per cent of the enterprises in Private Sector. The latest socialist concept is to encourage Private Sector to produce wealth, to give incentives to greater production and to siphon off surplus wealth to apply it for welfare purposes to raise the standard of living of the people at the lower level. This is in sharp contrast to doctrinaire socialism practised in some under-developed countries where the idea is to pull everyone down to the same level of poverty and in the process to destroy the productive forces in the economy.

Even in Soviet Russia, the dangers of bureaucratisation have been realised today and there is a gradual shiftback towards the principles of free economy although it is couched in Marxist-Leninist jargon.

Recently, “Izvestia” wrote: “Unfortunately there are officials who do not consider the norms of Soviet legislation apply to them. Violations of production planning and financial discipline, non-observance of labour, housing and other rights of citizens still take place.”

3. The concept of profit motive has also undergone a radical change in socialist countries. Profit is no longer a dirty word. It is but the surplus created, part of which goes to government as taxes, part goes to the employees as bonus and part is ploughed back into business and one part is given to people who have taken the risk of starting the enterprise. Profit is also, in a competitive economy, an indicator of relatively efficiency and allocator of resources to various sectors of the economy. Thus it is also a gauge of the democratic wishes of the people for goods and services.

Unfortunately, the operation of the Public Sector has resulted in large losses in India.

YEAR (ended 31st March)	Capital employed Rs. (crores)	Net Result of Operation Profit (+) or loss (—)
1961	920.43	+ 6.34 crores
1962	1,090.75	—10.60 crores
1963	1,294.11	—12.38 crores
1964	1,573.59	— 0.50 crores
1965	1,868.28	+ 10.32 crores
1966	2,225.88	+ 9.93 crores
1967	2,672.14	—21.53 crores
1968	3,078.29	—42.79 crores

—(From Audit Reports)

The story of State Government undertakings is no less disappointing. For instance, in Kerala, on an investment of Rs. 137 crores, end of March 1968, the return was less than 1 per cent. In Mysore, on an investment of Rs. 68 crores, the return was negative. The State Transport undertakings in the country, on an investment of Rs. 172 crores, yielded a nominal return of 4 per cent. It was an illusory return because if interest on investment was taken into account, the return was negative.

VI. The Future of Public Sector:

The question arises, with the huge investment already made in the Public Sector and the record of poor returns on the scarce resources of a poor people, what should be done with it. There are some practical remedies:

(a) The first and foremost job is to see that the investment already made should get at least a 10 per cent return on undertakings which have reached maturity. Instead of starting new ventures, the first item on the agenda should be to consolidate the existing enterprises and make them remunerative.

(b) In some cases, specially in the case of State Governments, the example of the Andhra Pradesh Government may be followed. Its paper mill at Rajamundhry was losing heavily. So it entered into an agreement with an experienced private entrepreneur and sold 51 per cent of the

shares. Within three years, the private management converted the loss of Rs. 6½ lakhs into a profit of over Rs. 100 lakhs. Production went up 28 times! Recently, when the mill took up an expansion programme, public confidence in the management was expressed by over-subscription of the issue. The State Government has benefited in two ways. First, the capital blocked up has been partly released; second, whereas it was incurring losses, now it will get handsome profits on part of the capital. This can be used for welfare measures.

(c) Complete autonomy to Public Sector undertakings would also be helpful.

In this context, the much talked about proposal of a "committed bureaucracy" should be viewed with concern. The running of a public enterprise is a matter for technical and managerial skills, not for ideological commitments. The concept of committed bureaucracy would only result in politicalisation of the Public Sector and further losses.

(d) Selling a part of the Public Sector shares to the public and allowing fair competition between the Public Sector on the one hand, and Private Sector and co-operatives on the other is another way of increasing the efficiency of the Public Sector. The example of railways is convincing in this respect. The powerful Railway lobby has dominated the transport policy of the Government. Therefore, heavy taxes have been levied on road transport. In spite of that, road transport is so efficient that the railways have been forced by competition to introduce containerisation and de-luxe trains. Competition really means putting the economy back into the hands of the consumers. It is not only democratic but also economically a wise step in that it leads to more efficient use of resources and greater production of wealth.

A discussion on the Public Sector cannot be concluded without a reference to the real and ignored Public Sector, i.e., the basic functions of the Government. For instance, defence of the country, maintenance of law and order, provision of an independent judiciary, highways and feeder roads, postal, telegraphic, telephonic and other communications, education, power, drinking water, public sanitation

are some of the essential items on the agenda of the Public Sector. This Real Public Sector needs priority. Merely to set up a Public Sector of business and industry would not help to give a better living standard to the people and would end up in a tragic situation of governments which wish to command the economy, but are unable to govern.

Maladies of Public Sector

The following are excerpts from the valedictory editorial in June 1970 issue by Dr. Raj K. Nigam, Editor of "Lok Udyog", published by the Bureau of Public Enterprises of the Ministry of Finance of the Government of India.

"While some of the Central Government units are making profits, some others are still making losses. It so happens that the units, which are making losses, are some of the largest in the public sector and the losses are also rather huge. As a result, on a combined basis, these enterprises are making heavy losses. Even after all the explanations and extenuating factors are taken into account in the most sympathetic manner, it is difficult to accept the plea that all the factors involved in the situation were beyond human control and, therefore, the losses were more or less inevitable. In such things perhaps it is difficult to prove a point one way or the other. But, I would like to record a personal view. In the course of my official responsibilities, I have had occasions to visit personally a large number of Central Government enterprises and discuss the multifarious problems with the top personnel in charge of these units. The impression which I have formed from all the discussions and the study of the relevant material is that the unsatisfactory performance of the Public Sector Enterprises was not inevitable and in fact, was and is attributable, to a considerable extent, to the following factors:

"Firstly, no satisfactory solution has yet been found to the problem of reconciling two imperatives which seem to pull in the opposite directions, viz., the accountability to the public through the administrative apparatus and

system in New Delhi and the needs of initiative and quick decisions at the plant level.

“Secondly, there is a dire scarcity of talent for the top cadre which is both professionally competent and ideologically dedicated to the cause of public sector. The efforts in the development of a management cadre for the public enterprises were no doubt hampered by the pressure from government services for manning public sector posts at various levels on short-term deputation basis and to some extent from retired or retiring officers from whom those enterprises do not stand to gain any lasting benefit for obvious reasons.

“Thirdly, there is a problem of the shocking degree of irresponsibility that pervades the middle cadre of the public sector enterprises.

“The consequent inefficiency, waste, shortfalls in physical production targets and financial losses have proved extremely harmful. That the financial losses have upset many of the financial calculations regarding the plan resources is perhaps only the smaller part of the harm. The much greater harm has followed from the fact that these things have deeply shaken up the faith of the people in socialism. It should be understood that ours is still not a socialist economy. The public enterprises, so to say, symbolize only a few specimens of socialism. Whether the people will opt for a further march along the road to socialism would depend a good deal on what they think about the performance of the public sector enterprises now in operation. In these enterprises, so to say, socialism is on trial. Therefore, to be complacent about the failings of these enterprises or to find out clever arguments to defend some of the aspects, which are really indefensible, is to do a disservice to the cause of socialism.

“It can be said that every trade union and most of the workers are certainly committed — more often than not deeply committed to the cause of socialism. These trade unions are at least subjectively very keen to popularise the cause of socialism. And yet, paradoxically it may seem, many of them behave at the public sector plants in a manner which can only harm the cause of socialism

by slowing down the process of economic progress with social justice on which all the three successive Prime Ministers have laid considerable emphasis and for which their Governments have worked very hard as well. Irresponsible galore of demands and endless inter-union rivalries have been the bane of quite a few public sector enterprises — some of them the largest in the public sector. If the workers and their leaders do not realise the full implications of their short-sighted activities and do not change over to the policy of willing and sincere co-operation with the plant authorities, it is evident that one cannot hope for any improvement in the working of these enterprises...”

Low Use of Public Sector's Rated Capacity

NEW DELHI, April 24.

The Parliamentary Committee on Public Undertakings has expressed alarm over the “low” utilisation by many public sector plants of their rated capacity.

Reporting to the Lok Sabha on its study of the use by these units of modern techniques of production management to achieve maximum production and profitability, the committee says the Heavy Engineering Corporation, the circuit-breakers unit of Bharat Heavy Electricals, the Hyderabad unit of Hindustan Machine Tools, the antibiotics plant of Indian Drugs and Pharmaceuticals, and the Mining and Allied Machinery Corporation utilised less than 15 per cent. of their capacity during 1968-69.

The committee has expressed alarm that the Hindustan Steel plants worked only 50 to 60 per cent. of their rated capacity.

It has expressed surprise that the Fertiliser Corporation should say that the rated capacity of its methanol, complex fertiliser and urea plants at its Trombay unit were only theoretical and that the attainable capacity was lower than the rated capacity.

The committee analysed in detail the production performance of various public undertakings during the last

three years and noted some instances where the percentage shortfall in achievement of targets of production was over 75.

The committee expressed distress over non-achievement of targets of production. It felt that "either there is something basically wrong in the mechanism of fixation of annual production targets or the arrangements for follow-up of production are deplorably inadequate."

Referring to the heavy financial losses incurred by major public undertakings, the committee has observed: "The criteria of profitability are getting gradually eroded and whittled down. If this drift from profitability is allowed to continue, there is every likelihood that gains of planned economic development may be offset by the heavy losses incurred by public-sector enterprises."

The committee feels that, if an enterprise fails to reach that stage within the stipulated period and continues to incur losses even after the gestation period is over, the Government should examine whether such an uneconomic enterprise must be allowed to continue.

The committee says public sector enterprises have not paid adequate attention to preventive maintenance with the result that frequent break-downs of plant and machinery and high shut-down time had resulted in a substantial loss in production.

The committee has pointed out that, "in seven public undertakings alone, the total loss in production on account of break-down of plant and machinery from 1965-66 to 1967-68 was over Rs. 7.03 crores."

The committee says cost-consciousness in the public sector enterprises is not developing at the speed and to the extent at which it should have developed. The committee expressed unhappiness that, in some cases, the cost of production had escalated to 200 to 374 per cent over the cost estimates stipulated in the detailed project reports.

—*The Times of India*, 25th April 1970

Drastic changes urged in public sector working

HYDERABAD, Oct. 19.

Mr. Prem Chand Verma, member of the Committee on Public Undertakings of Parliament, today called for drastic changes in the management of different public sector concerns to overcome the 'disturbing conditions prevalent' in them.

He was particularly opposed to retired officers continuing as chairmen and managing directors, because they had become 'spent forces'.

—*Gujarat Herald*, Ahmedabad, 20th October 1967

Statutory Set-up for Public Units

NEW DELHI, December 19.

Dr. M. Chenna Reddy, Minister for Steel and Mines, is all for a statutory set-up for public undertakings. He said this at the two-day conference of heads of State units under the charge of his Ministry.

Dr. Reddy told the conference bluntly that some of the criticism on the working of State units were quite justified and should be heeded by those in charge of the undertakings. Time-worn administrative approaches and methods should yield place to bold new steps for the efficient running of the organisations on a commercial basis.

Dealing with the problem of management set-up, Dr. Reddy said he supported the idea of a statutory set-up because that would help to define the precise relationship between Parliament, Government and the project concerned. When the limits of accountability of each authority were thus defined, each could be expected to keep to its own functions and avoid interference in day-to-day matters.

The second major question related to the financial responsibility of public sector organisations, with particular reference to generation of resources. Dr. Reddy said that he could not agree with the view that public sector and profits did not go together. He declared that the public sector could and should earn profits. Indeed, it was an obligation it owed to the nation. He called for a special drive

to bring down cost of production and step up sales and exports.

The third major issue, Dr. Reddy said, related to industrial relations, which had been very unsatisfactory in recent months. The remedial measures now under way included steps to associate labour with management at all levels and to appoint a special industrial relations officer in the Ministry itself.

Dr. Reddy suggested that incentives should cover all category of personnel, including the chairman and managing director. A scheme now under examination would also provide, on the negative side, "deterrents for performance below a specific level".

Referring to the problem of over-staffing in public sector projects, Dr. Reddy said that in some cases it was as much as 30 per cent.

—*The Economic Times*, 20th December 1967

“LIC Belies Hopes”

NEW DELHI, October 10.

The Deputy Prime Minister, Mr. Morarji Desai, said here today that the nationalised life insurance had belied the hopes of the Government, because the work was not being done the way it should have been done.

—*The Economic Times*, 11th October 1967

“LIC efficiency low”

NEW DELHI, July 18.

The Chairman of the Life Insurance Corporation, Mr. M. R. Bhide, said here today the standard of efficiency in the LIC these days was lower than in the Government.

“And I know pretty well the standard of efficiency in the Government as I have spent a good number of years there”, Mr. Bhide said while addressing the special session of the Standing Labour Committee. He was defending the proposal to instal computers in Bombay and Calcutta.

Mr. Bhide said the majority of complaints about the

working of the LIC were genuine. It often took months to transfer an insurance policy from one place to another.

—*The Hindustan Times*, 19th July 1968

State-owned units in Orissa have failed, says experts' team

BHUBANESWAR, June 19.

An expert evaluation committee, headed by Dr. P. S. Lokanathan, has reported that none of the Orissa Government-owned undertakings had produced results commensurate with investments.

It has said that two of the State-owned enterprises, the Orissa Fisheries Corporation (investment Rs. 59 lakhs) and the Orissa Forest Corporation should be wound up and some of their activities taken over by Government departments.

The committee was set up last October by the Orissa coalition Government to go into the working and performance of the State-owned corporations.

The biggest State-owned corporation in Orissa is the Industrial Development Corporation with an investment of Rs. 14 crores. The committee has found that it made a small profit up to 1965-66, but a loss of Rs. 11 lakhs the next year wiped out its gains.

"Its enterprises have brought about no significant multiplier effect," the committee observes. It has, however, created an awareness among the people of the need to develop natural resources.

The committee recommends that all State-owned units be managed as "company style" units with boards of directors on the same lines as public limited companies in the private sector, and with the largest measure of autonomy.

—*The Times of India*, 20th June 1968

Public undertaking run as "private zamindaris"

CHANDIGARH, June 21.

The Punjab Legislative Council's committee on public undertakings has pointed out that most of these organiza-

tions were almost like "private zamindaris of ministries or kingdoms within kingdoms", functioning leisurely and inefficiently.

These, like Government departments, were incapable of independent thinking and judgment as the entire set-up was controlled by Government officers.

The committee has pointed out that the Industries Secretary of the State Government was also the chairman of the Small Industries Corporation and it was difficult to imagine that what he opined at the secretariat level could be anything different from what he said or felt as the chairman of the corporation.

The officers at the helm of affairs were generally ignorant about business matters, they could not understand business tactics, particularly the mechanics of export and import trade.

The committee has recommended that the association of secretariat officers on the board of directors of public undertakings should be reduced to the minimum and well-qualified non-officials should be appointed on the board of directors. These organisations should be manned by experienced persons who have expert knowledge of trade and commerce.

The committee has commended the working of the Punjab Financial Corporation for being run on a sound financial footing and for leading all similar corporations in the country in respect of making profit in 1966-67.

The committee has severely criticised the working of the Punjab Export Corporation which had failed to achieve anything commendable. The Corporation, it says, had started the export activity with a bang but it ended in a whimper within a short time. The inspection staff of the Corporation, it is alleged, connived at the tricky methods adopted by greedy exporters which sullied the fair name of the country—the samples sent to foreign countries were of good quality but the subsequent supply was defective.

The directors did not take interest in the Corporation's work and even the last general meeting, held on January 5, was attended only by two directors—one proposed every item and the other seconded it.

An extraordinary meeting of the board, it is pointed out, was held solely for the purposes of appointing the daughter of a big industrialist as a sales girl in the Corporation's stall in the New York World Fair.

It adds that it was manifestly clear from the record that the New York Fair was utilized "for travel and recreation purposes". In the words of the committee what happened was that powerful persons succeeded in sending their sons and daughters to the U.S. "at State expense."

Girls with no business qualifications were recruited to man the counters as sales girls and the managing director of the Corporation admitted that "nepotism and favouritism prevailed in the selection."

The Corporation had suffered a loss of Rs. 7,17,455 in the New York Fair stall, the committee points out.

—*The Hindustan Times*, 22nd July 1968

Public Sector makes a "poor show"

NEW DELHI, July 14.

The management of public sector industries is far from satisfactory.

This is the agreed view of five prominent trade union leaders belonging to organisations of differing shades.

Mr. Ramanujam, General Secretary of INTUC, said the state sector was fast becoming bureaucratic; it had not come out satisfactorily by the tests of profitability, service and growth.

It was desirable to demarcate spheres of operation for the public and private sectors. They could exist side by side, supplementing each other instead of running each other down.

The efficiency level of the two sectors could not be compared as private industry possessed years of experience while the public sector was in its infancy.

For efficient functioning, public sector units should be really autonomous, manned by persons who believed in socialist objectives. They should take up industries which the private sector would not, and function as ideal employers. Political expediency should not determine managerial

policy. Production and marketing should be properly planned.

No distinction should be made between the public and the private sectors with regard to the rights of labourers.

Miss Maniben Kara, President of All-India Railwaymen's Federation, expressed the view that the public sector was badly managed. A majority of the employees was Anti-Government. There was no direct contact between employees and employers. This was particularly so in the Railways.

It was better to have mixed economy than "to have all industries owned by politicians."

Persons with experience should be appointed to run public sector industries. Organised labour should be consulted when working conditions were altered or new machinery was introduced.

Public sector employees would have to exercise a certain amount of restraint in wage claims because of the special privileges they enjoy.

Mr. Natwarlal Shah, Vice-President of the Oil and Natural Gas Commission Employees' Mazdoor Sabha, felt that public sector management was faulty because those in charge lacked business experience and acumen. He wanted specially trained personnel to be appointed to high posts.

Mr. T. C. N. Menon, Vice-President of the Petroleum Workers Federation of India, favoured exclusive development of the public sector especially in strategic and important industries like steel, oil, automobile, and aircraft. In the field of consumer industries, however, "the private sector may be given opportunities."

Mr. Muniappa, Joint-Secretary, Hindustan Aeronautics Employees' Association, said state industry was lagging behind private enterprise because of "inefficiency, open corruption, reckless spending and low productivity."

Conditions in the public sector would worsen if it was turned into an area to rehabilitate political favourites. To improve its functioning, the key positions should be given to those who had faith in the public sector.

—*The Indian Express*, 15th July 1968

BOOKS & REPORTS RECOMMENDED FOR FURTHER STUDY

THE FUTURE OF NATIONALISATION

by H. A. Clegg & T. A. Chester (Basil Blackwell);

THE FUTURE OF SOCIALISM

by C. A. R. Crosland (Jonathan Cape);

THE ECONOMICS OF SOCIALISM RECONSIDERED

by Henry Smith (Oxford University Press);

TWENTIETH CENTURY SOCIALISM

by Socialist Union (Nachiketa Publications Ltd);

PUBLIC ENTERPRISE IN SWEDEN

by D. V. Verney (Liverpool University Press);

NATIONALISATION IN GT. BRITAIN

by R. Kelf-Cohen (St. Martin's Press).

SOCIALISM IN THE NEW SOCIETY

by Douglas Jay (Longman);

NATIONALISATION IN FRANCE & ITALY

by M. Einaudi, M. Bye and E. Rossi (Cornell University Press);

GOVERNMENT IN BUSINESS

by S. S. Khera (Asia Publishing House);

THE PUBLIC SECTOR IN INDIA

by Nabagopal Das (Asia Publishing House);

DEMOCRACY & MIXED ECONOMY

by V. K. Narasimhan (Popular Prakashan);

THE STRUCTURE OF PUBLIC ENTERPRISE IN INDIA

by V. V. Ramanadham (Asia Publishing House);

SOCIALISM IN INDIA — A COMMENTARY

(Forum of Free Enterprise) (Popular Prakashan)

REPORTS OF PARLIAMENTARY ESTIMATES COMMITTEE

REPORTS OF PARLIAMENTARY COMMITTEE ON PUBLIC UNDERTAKINGS

AUDIT REPORTS (COMMERCIAL)

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

—Eugene Black

Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on economic issues, specially on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). College students can get every month one or more booklets published by the Forum by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-1.



Published by M. R. PAI for the Forum of Free Enterprise, "Sohrab House", 235 Dr. Dadabhai Naoroji Road, Bombay-1, and printed by Michael Andr ades at Bombay Chronicle Press, Syed Abdullah, Brelvi Road, Fort, Bombay-1.