

STATE ENTERPRISES

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FORUM OF FREE ENTERPRISE

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"We are neither omniscient nor infallible, nor are we so rigidly wedded to any course of action as not to alter it if it becomes apparent to us that we are mistaken.

"It is for this reason that we continuously welcome the people of India and our friends abroad telling us when and where they think we are going wrong."

**Mr. T. T. KRISHNAMACHARI,
Finance Minister, India.**

When great responsibilities of a new and specialised nature are being undertaken by our Government, day after day, when a new plunge into old ventures is being made by our State and when the sphere of governance is not confined to its primary duties, obligations and responsibilities to the governed, every enlightened and intelligent citizen of this great country ponders about the future economic set-up which is being evolved for our nation. While, in our Constitution, the right to own private property is recognised and guaranteed, in actual practice, our great leaders seem to look upon with suspicion and distrust the ownership of anything good or great. The only type of ownership that is encouraged and permitted to flourish is the ownership of political power and patronage. That being the new look towards men and problems in India today, it is no wonder that the State forges ahead into spheres of activities which ordinarily are regarded as being outside the ambit or pale of a democratic government, such as ours is claimed to be.

In the Second Five-Year Plan, the sphere called the Public Sector has been given great emphasis, allocation of funds and activities as well as great importance. As opposed to that, the so-called Private Sector, which, to my mind, should be termed the People's Sector or the Free and Open Public Sector, is relegated to a secondary or degraded position. Whatever the facts and reasons for all this may be, it is no part of my desire to discuss the relative merits and demerits of these two Sectors. Nevertheless, thinking about and watching certain tendencies which are fast establishing themselves with our great freedom-loving leaders and their daily activities, I am impelled to lay before you my personal observations about the functioning of State Enterprises in our country. These reflections are the dispassionate observations of a spectator who has taken careful notes of facts in these enterprises.

As may have been noticed by several of you, in all recent legislation of importance, pertaining to our economic life, and considered to be for the best benefit of our nation, some sort of exemption or another is sought to be provided for State Enterprises. Thus in our New Companies Act, irrespective of whether the Committee appointed by the Government itself recommended any special treatment for State Enterprises or not, an omnibus clause — Section 620 — has been incorporated, vesting powers in the Government to exempt State Enterprises from the operation of several sections

of this legislation. In addition to that, as soon as the Act came into force, early this financial year, a circular was issued by the same Ministry to all Government-owned and controlled enterprises drawing their pointed attention to this particular power of the Government and indirectly suggesting that they should seek exemption from the operations of certain important sections of this law. Obviously, one cannot fail to note the gross unfairness of such a special treatment. Is this not discrimination? Apart from all that, in actual practice, the special facilities, privileges and advantages enjoyed by State Enterprises are not only unwarranted and unusual, but also positively injurious to the interest of nationals engaged in similar economic enterprises.

Again, in our Rent Control legislation, special provisions have been made for the benefit of Government and semi-Government organisations. As a result, these public and semi-public institutions are legally entitled to charge any fantastic rentals for their properties, while individuals are compelled to regulate rentals for their properties according to some basis and regulations laid down in the law. Besides all that, even where legislation, like the labour laws, do not grant any advantages or privileges to State Enterprises, instances are not wanting where these ventures have claimed and secured protection from the strict adherence to law and authority.

Another feature noticeable in several State Enterprises these days is the presumption of expert knowledge on the part of those who are placed in charge of these ventures. As a consequence, dispassionate observers cannot fail to notice many square pegs in round holes. Individuals who may be good and efficient in certain administrative responsibilities and duties, are thrust on ventures in which they could not ordinarily be expected to take even the remotest interest. These "Mr. Know-Alls", coming from some heights, ensure for themselves all the best benefits, advantages and comforts, unmindful of the burden and strain which they cast on these enterprises under their charge and spend a good deal of their time in carrying out the orders and directives from the superior bureaucrats of the Secretariat. Quite often, such a state of affairs leads to a demoralisation and corruption of the whole atmosphere of State Enterprises with all the consequent evil results that ensue therefrom.

In the context of the personnel problem of State Enterprises, a prominent, though baneful, feature noticeable these days is the all-too frequent transfers and changes of key personnel. These transfers, apart from the monetary loss and disruption of policy, tend to create an atmosphere of uncertainty and lethargy all along the line of workers. The evils of such changes ensue to these enterprises not only when the changes take place of those directly connected with these enterprises, but also when there are changes of those of the Olympian Secre-

tariat who have quite a large say in the affairs of these national enterprises. Besides all this, a tendency seeming to loom large in the destinies of these enterprises these days is that of treating them as a refuge or dump heap of party men and relatives and others connected with the powers that be. Just to give one instance, in a State Enterprise where there were vacancies for three or four junior Officers, for which over 3,000 applications were received, wire pulling, recommendatory letters and even semi-directives came from no less than two dozen highly placed politicians and bureaucrats. From a single instance of this nature which surely cannot be said to be an exception these days, one can visualise what great purpose is served through these State Enterprises, particularly when they become the dumping ground of job hunters well connected with individuals high up either in the political firmament or in the bureaucratic framework of our country. In the manning of these institutions, some of the worst feature of jobbery and nepotism occasionally noticeable in the Governmental machinery itself, seem to be injected with a great vigour and at a very heavy cost to the nation.

These days, we see quite often notices in the press regarding these Government Corporations. A significant feature which must have attracted the attention of several of you is that these enterprises have been invariably registered as Private Limited Companies. When large resources of the nation

have been invested in these enterprises, it is not generally understood why they cannot be formed into Public Limited Companies open to public gaze and criticism. It is difficult to conjecture the motive underlying this policy. However, one may perhaps deduce that through this method these enterprises are precluded from complying with some of the very vital and complicated Sections of the Act as applicable to Public Limited Companies and also that it becomes difficult for the average man to evaluate the working results of these ventures, since the profit and loss account need not be filed by them, these being Private Limited Companies. Can it then not be said that the right of the citizen is sought to be quietly taken away or negated through this procedure? Surely, the representatives of the nation will soon take up this matter at the proper place.

Most of these ventures are nothing but subordinate offices of the Secretariat. Although, nominally, a certain amount of latitude and independence is granted to them, the tie-up and set-up are of such a nature that they virtually become the detached offices of the Ministry concerned. All major appointments of officials are the patronage appointments of the Ministry. Likewise too, any displeasure of the bureaucrats leads to a quick change or transfer, if not some more drastic and violent action. Also all matters of some importance in the functioning of these State Enterprises have to secure the prior approval of the Ministry concerned. In

short, to my mind, it is merely a mockery of independence that is enjoyed by these State Enterprises.

Another threat facing these enterprises these days is the all-too frequent interference in its normal functioning from the most unwanted and undesirable quarters. Since a large amount of the nation's money has been used for this purpose, politicians and their entourage treat these enterprises as their happy hunting ground for their personal benefits or profits. In the matter of purchases, sales and contracts, etc., these enterprises are subjected to the worst forms of pressure tactics. Besides the politicians, the bureaucrats too regard it as an important part of their jobs never to miss an opportunity of extending their patronage through these enterprises and benefitting their dear and near ones. No doubt, under similar circumstances, in other countries of the world, some of these tendencies are noticeable, but, unfortunately, in India today, these seem to have crossed all limits or Bounds within so short a period as the last four or five years. In the matter of examination of accounts of these State Enterprises, which is so vital for our nation, a common feature is that of annual audit undertaken by the Auditor-General. Unfortunately, such an examination is of a perfunctory nature and is carried out generally by officials who are not highly qualified to look into all the technical aspects of the various types of business handled by these State Enterprises. Quite often too, the remarks made by these experts of Government are of a ridi-

ulous nature. Thus, in one instance, at the time of the test audit, a query was raised why the profits during a particular period were allowed to rise in that enterprise. Conveniently too, through this method, many a sin of **commission** and omission of some well-connected individuals employed in these enterprises is overlooked or explained away convincingly. Again, the criticisms levelled rarely by these test audit officials **are** generally allowed to be forgotten through lapse of time or in rare cases highly efficient whitewashing process of the Government is brought into force most vigorously and effectively.

All these State Enterprises are Government **business** and **have** to be so regarded and treated in every sense of the term. Unfortunately, **those** employed in these enterprises regard themselves as public servants of a very special order owing allegiance to none but their bureaucrat superiors of the Secretariat. As a result of this, these special classes of civil servants secure for themselves all the privileges and benefits from these enterprises, while not being prepared to **shoulder** the responsibilities. The cost to the nation through such an attitude is colossal and can be measured in concrete terms only if the powers that be commit themselves to a periodical scrutiny of the progress and **accounts** of these State Enterprises through Committees of independent non-officials who could be expected to know something of the business handled by these State Enterprises. **As** is too well known to the

Government, other Corporations functioning under the ordinary law of the land have to keep open their books and announce their progress publicly to all who are directly or indirectly concerned or connected with those ventures.

During the last decade, since the dawn of independence in our country, it has been the fashion to register these State Ventures under the Indian Companies Act consisting of a few non-officials in the Board of Directors of these ventures. The broad principle underlying this seems to be desirable and wholesome and has helped politicians to explain to the general public the nature and structure of these publicly-owned companies. However, those of you who may have deeply examined the Constitution of these Enterprises could not have failed to notice that they have been organised in this fashion with no sincere motives. A careful scrutiny of the composition of the Boards of these Corporations clearly shows that non-officials, however sincere and patriotic, can hardly prove effective for this great national cause. The noises rather than voices of the **officials** backed by headquarter directives, and even threats, drown all wise counsels emanating from sincere non-officials on the Board of these enterprises. This is not all. Quite often political expedencies are injected into some vital decisions on these enterprises. Thus, in one recent instance, brushing aside all cannons of sound business and common sense, the order for an important asset costing over a million pound sterling.

was placed with a source which did not have the necessary experience and background for that purpose and for a delivery two and half years hence, as against offers at around the same price from experienced sources which quoted a delivery of one and half years from the date of the placing of the order. Those of you who may be connected with Joint Stock Enterprises in this country would know very well which Sections of the Indian Companies Act may be invoked against you if you happen to be a party to such a decision. But, at the present time, here in India, when we are evolving a new definition of democracy, sections of the law which may be invoked against the common man, ordinarily, in practice, cannot be invoked against our patriotic politicians and a class of newly-born bureaucrats who are devoted to the national cause of evolving a new type of Socialistic Pattern for our country.

These are some observations regarding the functioning of State Enterprises in our country today. Several of you may have observed other features. Both for the satisfaction of your conscience and for the larger interests of our country, I would implore you to state your observations on some occasion or another and thus live up to the great traditions of the Mahatma of being frank and sincere to the nation.

In conclusion, I can do no better than quote from what Mahatma Gandhi had to say on a matter of this nature a little before his tragic demise:—

"I look upon an increase in the power of the State with the greatest fear, because although while apparently doing good by minimising exploitation, it does the greatest harm to mankind by destroying individuality which lies at the root of all progress.

"The State represents violence in a concentrated and organised form. The individual has a soul, but as the State is a soulless machine, it can never be weaned from violence to which it owes its very existence.

"It is my firm conviction that if the State suppressed capitalism by violence, it will be caught in the coils of violence itself, and fail to develop non-violence at any time.

"What I would personally prefer, would be, not a centralisation of power in the hands of the State but an extension of the sense of **trusteeship**; as in my opinion, the violence of private ownership is less injurious than the violence of the State. However, if it is unavoidable, I would support a minimum of State-ownership.

"(What I disapprove of is an organisation based on force which a State is. Voluntary organisation there must be."

Text of a talk delivered at the Rotary Club, Bombay, on September 18, 1956.

