WHY SCARCITIES?

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

—Eugene Black

INTRODUCTION

Inflation and scarcity of essential commodities are two sides of the same coin. In common man's language, more money is chasing relatively less goods and services. Hence, prices shoot up. Until this imbalance is rectified, the situation will persist. The cure is obvious—to restrain money supply and to increase production, especially of essential commodities.

This booklet surveys only three of several essential items in short supply—vanaspati, paper and coal. The list is larger, but an analysis of these three brings into focus the defects in economic policies which are responsible for shortages and high prices.

The first article sets out the whole problem of shortages in its proper perspective.

WHY SCARCITIES?

I

SCARCITIES AND INFLATION

By

D. R. PENDSE*

The common man is groaning under the pressure of spiralling prices and ever-increasing scarcities. Several economists, industrialists, and political and social workers have by now studied the question in depth and expressed their views. Naturally, these views differ in emphasis here and there, depending upon the author, but, it can be said that probably nothing much new remains to be said on the causes of and remedies for the current scarcities and inflation. Curiously, however, the crisis has not only not abated even slightly but, it threatens to intensify itself. This is what makes one wonder whether there are any vested interests at work.

At the outset, it is as well to concede that every scarcity creates not only its victims but also its own beneficiaries (e.g. the black marketeers). If these scarcities are confined only to a few commodities, then the number of such beneficiaries and consequently their power to perpetuate such scarcities also remain restricted. But, when scarcities become widespread and are not temporary any more, the beneficiaries themselves are strengthened in number and power. Naturally, they take every precaution to perpetuate these scarcities in order to make their personal fortunes and for this purpose they do not even hesitate to bring influence on Government and other authorities to help them in this selfish game.

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Seen in this perspective, the current Indian scene throws several illustrations to ponder about. Take foodgrains for instance. The Government has appointed the Agricultural Prices Commission (A.P.C.), an expert body, to recommend procurement and support prices for foodgrains after considering the interests of both the growers and the consumers. In the light of the A.P.C.'s views, the National Development Council (N.D.C.) makes recommendations to the Government. The N.D.C., being a body mainly of Chief Ministers, generally reflects the views of the rich farmers' lobby. Predictably, therefore, year after year, irrespective of bumper crops or droughts, the N.D.C. had been proposing prices significantly higher than this expert A.P.C.'s recommendations; e.g., during 1973-74, the N.D.C. left the matter about paddy prices to States, and the effective procurement prices fixed by most States were around Rs. 110 per quintal, in contrast to Rs. 63 per quintal recommended by the A.P.C., and Rs. 56 which was the procurement price in the previous year. Another 20 to 30 per cent have to be added to this as handling and other charges before rice is sold at the ration shops.

Similarly, prices for sugarcane were fixed by the U.P. Government at Rs. 12 to Rs. 13 per quintal as against Rs. 8 decided by the Centre. Given these circumstances, it is a moot point how far, if at all, food and sugar prices can come down!

Industry also is not free from blame. During inflation and scarcities, there is no more any need to bother about the quality of the product or to put in any marketing effort. At times, some producers of scarce goods are even worried that if supplies were to improve and if a buyers' market were to emerge, they will have to start bothering about quality, service, marketing and all that. Such producers are also perhaps worried that if they produce more, prices may come down and their overall profits may be adversely affected. Life seems so much easier with scarcities!

Political parties also sail in the same boat. In 1970, the Government made a rule that political parties should not receive donations for election funds from companies. Government also made a rule that no candidate should spend more than Rs. 35,000/- as his election expenses. Everybody knows that both these rules are observed more in their breach. Actually, in the Rajya Sabha, a member recently alleged that many candidates spent anything between Rs. 1 lakh to Rs. 60 lakhs for their elections. It follows that the money which has to be raised for election funds has to be black money! And black money breeds best on scarcities and inflation. So an unholy alliance is formed and a vicious circle begins: Black money is needed for elections, and scarcities and inflation are needed for black money!

The Government itself had developed a vested interest in inflation. One of the many examples is the excise duties. Since 1969, the Government of India has been introducing a changeover to the **ad valorem** system of charging excise duties, i.e. these are now charged as a **per cent** of the price of the product; already about 40 per cent of the excise duties are now on **ad valorem** basis. In 1973-74, the Government of India's income from excise duties was about Rs. 3,000 crores, of which the income from **ad valorem** duties was probably Rs. 1,200 crores. Thus a 20 per cent rise in prices in a year increases Government's excise revenue by as much as Rs. 240 crores, without any increase in industrial production whatsoever.

Similarly, other tax revenues are also buoyant because there is no inflation-factor attached to income tax, wealth tax or corporate tax. The latest budget is an example in point. Even if the exemption limit is increased from Rs. 5,000 to Rs. 6,000, and even if there is a reduction of income tax rate across the board, Government does not expect any fall in tax revenues, mainly because with increased dearness allowance payments and wage revisions in Government as well as public and private sectors, the growth rate in the number of assessees is expected to be maintained!

Last, but not least the Reserve Bank itself, under the present system, is enjoying the fruits of inflation. As is known, the mode of deficit financing is the issue of ad-hoc treasury bills by the Government to the Reserve Bank. The RBI receives 4 per cent interest on these, and this was the primary source of income for the RBI, which, expectedly, increased from Rs. 25 crores in 1956 to Rs. 171 crores in 1973. And of course its expenditure had also increased from Rs. 5 crores to Rs. 41 crores during the same period. As long as inflation and deficit financing continues, the RBI not only comfortably meets its expenditure but actually hands over the balance (Rs. 130 crores in 1973) back to the Government of India as a profit, and the Government again shows it as its own income in the budget! So we have one more extraordinary cycle: Higher the deficit financing, higher the profit of the RBI, and higher the income of the Government of India!

These are but a few examples of the sort of vested interests likely to be at work. Of course, it would be incorrect to conclude that the presence of the vested interests is the only cause of the present scarcities and inflation. Government is obviously trying to fight these evils, but its attempts appear to be singularly inadequate.

One point needs to be emphasised in conclusion. A rise in prices is in itself not necessarily an evil. The crucial point is the purchasing power of the common man. If incomes of all people were to increase by more than 10 per cent in a year, a price rise of 10 per cent would not cause so much of anguish. But the only stable way of raising incomes of the community is by accelerating economic growth, by giving employment and by increasing production all-round. In countries like Brazil, for years prices have risen by over 50 per cent annually. In one particular year, they increased by as much as 100 per cent. But at the same time, the country industrialised and developed at such a rapid rate that many economists now look upon Brazil as the third miracle (after West Germany and Japan).

In our country, economic growth has come to a virtual standstill. Prices rise in geometric scale; but the growth in real per capita income is negligible. That is why we get caught in the whirlpool of scarcities and inflation.

II

VANASPATI

By

C. V. MARIWALA*

Vanaspati has been in short supply for over a year now. This has been a subject of much public concern; rightly so because in recent years, with ghee prices soaring to levels beyond the reach of most income groups, vanaspati has become common man's ghee.

Vanaspati is only a processed edible oil, i.e., edible oils, like groundnut and cottonseed, are refined to remove impurities, colour and odour and hydrogenated to change their physical consistency from liquid to semi-solid state. The oils remain as nutritious as before.

Sometimes it is asked—why produce vanaspati if it is only as good as oil and make consumers pay more for it? To the housewife vanaspati offers distinct advantages. Food cooked in it has no characteristic flavour of the oil. You can keep the food cooked in vanaspati for long period. Some sweets and other confectionary articles, which require hard fat, can only be made with ghee or vanaspati but not with liquid oils. The vanaspati industry does not cater only to the fancy of the consumer, it serves a useful social function too. By making non-traditional oils into readily acceptable form of vanaspati, it helps to promote better use of the available fat resources of the country. Thus cottonseed oil is normally not acceptable. But in the last 10 years the industry has encouraged cottonseed crushing and made 2 lakh tonnes of cottonseed oil available in the form of vanaspati. Similarly in recent years about one lakh tonnes of cheap exotic oils, like palm, soyabean and sunflower, have been imported annually to mitigate edible oil shortage in

* Based on a public lecture delivered in Bombay on 24th July, 1974. The author is the Chairman of Vanaspati Manufacturers' Association of India.

the country. In the form of vanaspati they have been readily consumed. Efforts to sell even small quantities of these oils after refining for direct consumption were unsuccessful. Last year, when there was an acute scarcity of groundnut oil, the vanaspati industry made mustard oil available to people in this area in the form of vanaspati. In short, vanaspati helps to overcome shortages of specific oils and optimise utilisation of our edible oil resources.

Vanaspati was freely available until 1972 because there was enough oil to make vanaspati. Last year we witnessed the first ever edible oil famine because the main source of oil groundnut crop, had failed. The Government could not arrange sufficient import of oils to make up the shortfall. Consequently vanaspati production declined from 50,000 tonnes a month in 1972 to 39,000 tonnes a month in 1973. This year oilseed crops have been good. Oil supply has increased by about 5 lakh tonnes. Still there is an overall shortage in oil supply because our production has not kept pace with rising demand from our growing population and oil-based industries. Nevertheless, vanaspati production should have increased this year because of increased oil availability. Unfortunately, it continues to decline even from the low levels of last year. Average monthly production in the first six months is only 35,000 tonnes, showing a further decline of 10 per cent. This is largely the result of unrealistic prices fixed by the Government under vanaspati price control.

How devastating has been the impact of Government policy on vanaspati production can be correctly appreciated if one keeps in view the nature of the vanaspati industry itself and the manner in which Government exercises control on its prices.

The cost entailed in processing oil into vanaspati is only a small fraction of the cost of oil. The maximum cost of processing including profit, allowed by Government under price control, is only Rs. 400 per tonne, whereas edible oils cost nearly Rs. 9,000 per tonne. There is no control on the prices of edible oils. They fluctuate widely from day to day. For example, in January this year groundnut oil prices shot up from Rs. 6,200 per tonne to Rs. 8,000 per tonne in the course of 3 weeks. It is obvious that there can be no stability in vanaspati prices in these circumstances.

A major consequence of these heavy oil price fluctuations, not commonly understood, is that the vanaspati manufacturer must bear tremendous risk of loss on the levels of stocks he carries should oil prices decline. High prices also entail huge investment in the stocks of oils. Therefore, generally a manufacturer carries very limited stocks. With credit squeeze, steep rise in oil prices and restrictions on purchase of oil for delivery beyond 11 days, the industry currently could carry stocks enough for only a fortnight's average production.

The Government of India imposed the control on vanaspati prices in 1963 for only a temporary period. The Finance Minister had abolished the excise duty on oils and increased the duty on vanaspati in the Union Budget proposals. He wanted to ensure that the vanaspati prices were not raised indiscriminately. So he imposed a temporary control under Defence of India Rules. When oil prices rose, the Government became reluctant to remove the control on vanaspati prices. Since then it has continued first on informal and then statutory basis. The Government, however, could not ignore the heavy fluctuations in the oil cost of the industry. Until the end of May 1974, it used to review vanaspati prices every fortnight.

In the last ten years, cheap imported edible oils available under PL 480 and other aids enabled the Government to keep vanaspati prices unchanged for some months at a time by releasing sufficient imported oil to neutralise increase or decrease in the cost of oil to the industry. There were on average about 7 or 8 changes in vanaspati prices in a year.

In practice the price control itself has become a major cause of fluctuations in vanaspati production. The reasons are : Firstly, the Government requires at least a fortnight to collect oil cost data for reviewing vanaspati prices. This means a manufacturer must carry enough oil stocks to maintain production for a full month. Only by rotating such stocks, he can ensure that the cost of oils purchased by him in a fortnight will be realised in the vanaspati prices a fortnight hence. Any manufacturer having insufficient stock will have no alternative but to close down if suddenly oil prices shoot up. With bank credit squeeze, steep rise in oil prices and the inherent human tendency to minimise losses by taking a view of the oil price trends, many a manufacturer is often caught with insufficient oil stocks. Since overheads in the vanaspati industry are low it pays to shut down than purchase oil at high prices and continue production.

Secondly, the delay in the vanaspati price review gives an opportunity to dealers to anticipate vanaspati price changes and hoard vanaspati in a rising or dehoard in a falling oil market. Thus when oil prices fall, dealers are reluctant to buy from the manufacturer till prices are reduced. When vanaspati prices are kept low through heavy use of imported oils artificial demand is generated and the genuine consumer finds difficult to meet his needs.

Thirdly, as the costs of processing, packing etc. have not been revised for 4 years, the manufacturer cannot make any profit by producing vanaspati for sale at controlled rates. This is also a major hindrance to normal output.

Fourthly, the Government is often not in a position to assure the industry use of imported oils as required because of delays in ship arrivals or rail movement. The manufacturer, not in a position to suffer immediate losses which, of course, he would make up when the imported oils are delivered to him, may choose to curtail production.

Since 1st June 1974, the above system of vanaspati pricing has broken down completely because Government has no imported oils to release. Between February and May 1974, the Government had kept vanaspati prices unchanged at low levels despite a steep rise in oil prices by releasing large quantities of cheap imported oils. When groundnut oil was selling at about Rs. 8,500 per tonne the price of vanaspati including excise duty was Rs. 7,700 per tonne. When imported oil stocks were exhausted Government was faced with the choice of raising vanaspati prices by Rs. 2,500 per tonne on the basis of indigenous oil cost of the industry or decontrol. Since no decision could be taken before 1st June, the Government just kept vanaspati prices frozen. Consequently factories closed down and vanaspati production almost came to a halt. On 15th June vanaspati prices were revised but not to the full extent of the cost of oil. Thus, in Maharashtra, factories have to pay nearly Rs. 9,000 per tonne for oil but the revised vanaspati prices are based on oil cost of only Rs. 8,100 per tonne—a loss of Rs. 900 per tonne. The Government continues to disregard steep increases in the cost of containers, chemicals, wages etc. Hence the industry is in no position to resume normal output. Most factories are trying to use up oils in stock and some imported oils due to them from STC. Vanaspati production in June was 17,000 tonnes, July 24,000 tonnes and in August when oil stocks are getting exhausted the output will be no more than 14,000 tonnes. Therefore, you do not see vanaspati in the shops.

So long as edible oil prices fluctuate, there can be no rational control of vanaspati prices. This control serves little social purpose because the consumer is not assured of vanaspati. It only encourages unsocial practices.

If vanaspati prices are decontrolled, vanaspati would soon be as freely available as refined oil today. The industry has the capacity to produce one lakh tonnes of vanaspati a month. The demand at present cannot exceed 50,000 tonnes. With limited working capital, unpredictable oil prices and anxiety of every manufacturer to maximise his output to improve utilisation of his capacity, there would be keen competition to sell. The consumer would get vanaspati at very reasonable prices. The prices will of course fluctuate with oil prices.

Decontrol would immediately result in some rise in prices as the present prices are uneconomic and bear little relationship to the prevailing oil prices. The consumer would prefer to have vanaspati freely available rather than not at all as at present. The answer to high oil and vanaspati prices is not controls but more output. Unfortunately, oilseed production has not received the attention it deserves and unless there is a radical change in our approach in this field we may continue to be faced with oil shortage.

III

PAPER

By

B. D. SOMANI*

Basically, the main problem of the paper industry is the rate of growth. It has not been in accordance with the rising demand. As a matter of fact, there has been no growth or any increase in production in the course of last three years. The figures are:

1971	...	8.03 lakh tonnes
1972	...	8.04 lakh tonnes
1973	...	7.96 lakh tonnes

Of course, there are several reasons for this but the basic responsibility can be largely put on the Government itself. The growth of this industry has not taken place mainly because of the ideologically-oriented policies of the Government of not allowing the larger houses to expand or to establish new units.

Time and again, the industry has been pointing out to the Government that greater attention is to be paid to early clearance of various expansion programmes as well as new schemes. It sounds paradoxical that on the one hand the Government claims that it has already issued letters of intent or licences for additional annual capacity of more than 13 lakh tonnes per annum; whereas, the fact remains that those

* This text is based on a public lecture delivered under the auspices of the Forum of Free Enterprise in Bombay on 9th Sept., 1974. The author, eminent industrialist, is a Past President of All-India Manufacturers' Organisation.

who are capable of and were quite anxious to set up new capacity were not permitted to do so for one reason or the other. Licences have been issued to a large number of newcomers who have not been able to implement such projects which involve a huge capital outlay of the order of Rs. 50 to Rs. 60 crores or even more for any economic size unit.

The basic problems of the paper industry could be largely divided into five heads: 1. Raw Material. 2. Adoption of modern technology. 3. Economic viability of new development programme. 4. Need to provide financial assistance: and 5. Lack of basic infra-structure facilities like power, transport, etc.

Suitable long-fibre forest raw material is not easily available, particularly coniferous species of softwood. Bamboo, being the only long fibre raw material, is still consumed to the extent of 70 to 80 per cent. The other traditional raw material available in the country like bagasse, rice and wheat straw, grass, hardwood, etc. present their own problems and difficulties in processing. The forest development programme has not been catching up to meet the increasing requirement of the paper industry. The use of bagasse has not been increasing mainly because of the lack of alternate fuel available to the sugar industry along with the requisite conversion equipments to burn alternate fuel. No doubt, rice and wheat straw have now been used increasingly by small and medium size units but the large units have not attempted the use of such raw materials mainly because of the transport and collection cost. Use of hardwood has not been so extensive because the species available in India are not so good as Eucalyptus or the other hardwoods available in the developed countries. The forest development programme has to be jointly undertaken both by the Forest Departments as well as the industry, if intensive and extensive development of the forest has to take place to meet the increasing requirement. Incidentally, intensive development of forest is also employment-oriented and could be more profitably undertaken on a large scale provided a more realistic and practical view is taken by the State Governments concerned.

The Paper Industry, in order to expand in a big way, needs more modern equipment and new technological process for use of unconventional raw materials, particularly for making high yield pulps like thermo-mechanical or semi-chemical pulp. For this, the blame lies partly on Government and partly on the industry itself. Not much attention seems to have been given on the research and development programmes in industry and as a result thereof, by and large, the pulp and paper industry still continues to use such conventional process of chemical pulping. The new process has been extensively used in other developed countries like Japan, U.S.A., Canada and Europe, particularly the Thermo-Mechanical and High Yield Pulping and Semi-Chemical Pulping Processes.

Similarly, the economy of scale also plays an important role, particularly, when the chemical recovery plays a very crucial part in the overall cost structure. The use of chemical recovery boilers is possible only if the units are substantially of bigger size, like 200 tonnes per day or more. Not much progress has been made on establishing large pulping units as it is seen in case of Scandinavian and Canadian industries. Time and again, suggestions have been made to establish large pulping mills to supply pulp to small and medium units who cannot economically instal modern recovery systems in their units.

In a country like Japan, which is hardly 1/5th in population and 1/10th in area and where they do not have sufficient forest raw materials like India, still they are producing more than 13 to 14 million tonnes of paper as compared to 0.8 million tonnes in our country. Japan continues to get forest raw materials as well as fuel from other countries and its capacity is growing very fast and would probably be the second largest paper producing country by 1980.

Since the development of paper capacity involves huge capital outlay, running into Rs. 40 to Rs. 50 crores or even Rs. 100 crores, it can be visualised that such a project can only be handled by those who have extensive experience and necessary expertise along with organisation and adequate resorces to mobilise the financial outlay, required for setting up economic size units.

Besides difficulties experienced in financing the project, the political atmosphere prevailing in the country is also not conducive to the growth of this industry. Therefore, the Government will have to take a realistic view of the situation and allow the large houses to undertake either expansion of the existing units or the setting up of new units, particularly in regions where adequate raw materials may be available.

No doubt, by and large, the policy as announced by the Government is quite sound provided the implementation of the same is also taken up in the same spirit. However, unfortunately, my experience is that in spite of the policy pronouncements to encourage the large houses or large units to expand faster, the growth of the industry has not been possible because of various other hurdles put in the way of the industry.

There is a critical shortage of newsprint in the world and considering this aspect, we have been making sincere efforts with the Government of India expressing our keen desire to undertake manufacture of newsprint in both our paper units for more than one year. The country is importing newsprint today and begging from every possible source for this commodity by paying between Rs. 3,500 to Rs. 4,000 per tonne. On this basis even one year's production from our unit would save more than 100% of the foreign exchange released for import of plant and equipments required by us. In spite of the shortage that prevails, still it seems our administrative formalities do not take any cognisance thereof and have no real sense of urgency.

An opportunity which was available to the industry to get modern equipment at very low and reasonable prices only a couple of years back is now lost mainly because of the undue delay in clearing the projects.

The industry is quite anxious to play its useful role in overcoming the shortage of newsprint and it had submitted proposals to the Government but no serious consideration seems to have been given to them. Unusual delays and sometimes unrealistic outlook on the part of the administrative machinery are really responsible for creating the present acute shortage of paper in the country; otherwise the shortage would not have been there to the extent being witnessed today.

IV

COAL

By

M. R. MEHER*

Among the industries for the nationalisation of which the nation has had to pay a heavy price the coal industry takes a high place.

The two Government corporations running the coking and non-coking coal mines have been making losses. The coal consuming industries among which the railways, power houses and steel plants are important ones, have had to pay dearly for coal after nationalisation, while the only persons who have benefited are the workers in the coal mines. The labour unions in the coal fields were understandably the most vehement advocates of nationalisation of the mines.

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During the last budget debate in the West Bengal Assembly, when some CPI members suggested a bigger role for the State in certain industries and raising of more resources from the public sector the Labour Minister Dr. Gopal Das Nag is reported to have said that the nationalisation of the coal industry had brought frustration.

Actually, it would not be an exaggeration to say that nationalisation of the industry has proved to be an egregious blunder for which the nation has paid and is paying dearly and this is a warning against indiscriminate nationalisation.

In the case of the coking coal mines, the motivating factor was said to be the economic exploitation of this coal the reserves of which are not large. In the case of the non-coking coal mines, the inability of the private sector to find adequate resources for integrated development of this important mineral was the justification.

But an important motivating factor was the pressure for nationalisation by the trade unions in the industry who were complaining that many of the private owners of collieries had not given effect to the recommendations (miscalled award) of the wage board for the coal mining industry.

Apart from this, labour has always been a vehement advocate of more and more nationalisation, because of benefits from the "model employer" who is expected to give in with good grace to labour demands reasonable or unreasonable whether the industry makes profit or loss or continuous losses.

In the private sector there is the limiting factor known to unions, against pressing unreasonable demands, viz., that it may lead to heavy losses and closure.

This limiting factor does not operate at all in the public sector where the exchequer, i.e., the tax-payer, is expected to bear losses and there is no question of closure.

The Government has recently increased the price of coal by Rs. 10 a tonne with retrospective effect from April 1, 1974, which is an unusual course. In March 1974 the Union Minister for Steel and Mines disclosed that the Coal Mines Authority Ltd. was likely to suffer a loss of Rs. 10 crores during 1973-74.

The loss was attributed to implementation of the wage board recommendations, recategorisation of workers, increase in dearness allowance, grant of interim wage relief, increase in the cost of materials and stores and irregular and inadequate wagon supplies.

But this being a very labour-intensive industry, the principal factor appears to have been the rise in wages and dearness allowance as also the increase in minimum bonus from 4 to 8-1/3 per cent.

In the case of steam coal, the price increase compared with the price prior to nationalisation works out at 31 per cent for selected A coal, 35 per cent for selected B, 38 per cent for Grade I and 43 per cent for Grade II. For slack coal the increase has varied from 30 to 44 per cent. With effect from November 15, 1973 the steel industry had to bear a price increase of Rs. 36 a tonne coal.

In March 1974 the Indian Colliery Owners' Association estimated that the cost of coal at destination of coal has increased by between 50 and 200 per cent after nationalisation.

The President of the Association asked for an impartial judicial inquiry committee to go into the question of the price hike. The latest increase in coal price would affect the railways, power houses and industries like steel, cement and paper. In this way the round of inflation goes on.

Before nationalisation of the coal mines a large number of units had not given effect to the wage board recommendations because the recommendations ignored the capacity of the industry.

The few units which had large reserves and which carried out the recommendations found themselves working uneconomically or at a great loss.

After nationalisation of the non-coking coal mines the public sector undertakings were pressurised by the unions to agree to appoint a committee to go into the demands of the unions for increase in emoluments of the workers. In the meantime an interim increase was agreed to.

All this was not justified as substantial increases in costs were already caused by the large increases in wages, dearness and special allowances and other benefits recommended by the wage board and the dearness allowance was already linked to the consumer price index so as to secure satisfactory neutralisation of the increase in the cost of living.

The wage board, in making its recommendations, ignored the capacity of the industry. It made no attempt to assess the increase in the price of coal that would be necessitated by its recommendations on increases in wages, dearness allowance and other allowances (including rent allowance twice over though rent was included in the wage).

The wage board assumed that the Government would sanction increase in the price of coal to enable the industry to give effect to its exorbitant recommendations. This expectation did not materialise. The wage board ignored the inflationary effects of rise in the price of a vital commodity like coal.

In its report, it even made the extraordinary statement that "the control of costs is the primary function of efficient management and the manner in which the control is exercised is not and cannot be limited to a curb on wages."

The members of the wage board representing the private sector wrote a minute of dissent complaining that the board did not undertake an assessment of the impact of its proposals on the cost of production.

They added: "In adopting this course the members of the board seem to have lost sight of the fact that the essential prerequisite for deciding the wage structure was to consider the capacity of the industry to pay and this in our opinion introduces a fatal infirmity in the decision of the board."

Perhaps no single factor has done more to discredit the wage board system than the arbitrary and unrealistic recommendations of the wage board for the coal industry. If the recommendations of the wage board had been reasonable and taken into account the capacity of the industry, the Government could have secured compliance with the recommendations from the private owners of collieries. After nationalisation the Government decided to give effect to all the recommendations at the cost of the taxpayer and the railways and other vital industries consuming coal to appease the unions in the industry.

As stated above, the workers already got large increases in emoluments and other benefits by giving effect to the wage board recommendations, as also an interim increase in wage after nationalisation. Any further increases in these emoluments and other benefits would mean a further increase in the price of coal over and above the steep increases after nationalisation.

Another unsatisfactory feature is that though the workers have greatly benefited by nationalisation of the industry, there has been no improvement in their productivity.

The Bharat Coking Coal Ltd. is reported to have engaged 60,000 more workers in the course of just over a year. This was done to secure increase in output. The output is reported to have increased by about 30 per cent, while the labour force has increased by 52 per cent.

Furthermore, while the price of coal has been raised steeply, the quality of coal produced has declined. Some time ago, the President of the Coal Consumers' Association made a statement that the greatest casualty of nationalisation has been the quality of coal. The calorific value has declined, while the ash content and moisture have increased. The poor quality of the coal supplied to the power plants has been one of the factors responsible for the present power crisis.

Instead of nationalisation resulting in higher production and supply of quality coal at reasonable prices and a reasonable return on the capital invested in the coal industry, the result so far has been the opposite.

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

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

—A. D. Shroff
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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