

# **PUBLIC ACCOUNTABILITY**

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**FORUM OF FREE ENTERPRISE**

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# PUBLIC ACCOUNTABILITY

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Public accountability in its widest form may mean accountability by Ministers, departments and officials for any acts that they have performed. I think what we have in mind here is perhaps something slightly narrower than the concept of responsible Governments, and that is the accountability for actual actions taken, particularly those having financial implications regarding the expenditure of public money and the proper use of public resources.

The motivation of public accountability in that shape would be two-fold. One would be the old maxim: "no taxation without representation"; those who contribute money have the right to have a say or, to take the old saying: "He who pays the piper calls the tune." In all situations those who find the resources have a right, an obligation in fact, to follow through their contribution by seeing that the funds that they contribute are appropriated and used for the purposes for which they were intended. That is why I find myself out of sympathy with the slogan: "Aid without strings". The question is: what kind of strings? I believe aid should always be with strings, otherwise it is pointless.

There should be no taxation without representation. Power is something which needs to be limited and tamed, because power that is untamed is a menace. In a parliamentary democracy, this taming process takes many forms and I shall mention only three.

The first is the voting on Demands for Budget Grants. That, if we remember our British Constitutional history, was the way in which the King was brought under the control of the people through Parliament voting supplies or refusing to vote supplies. The refusal of supplies is still there, though it has lost much of its significance, because nowadays Governments can also be brought down at other

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

—Eugene Black

times of the year on a straight motion of lack of confidence. Still, this is the one test in a year which no Government can evade, facing the Legislature when it has to get its supplies put to the vote. If the supplies are not voted, the Government has to go.

We have this process in India between mid-March and mid-April every year. After the Budget is introduced and the General Debate finishes, we have about a month set aside for voting on Demands for Grants. During these four or five working weeks, there is no other business before Parliament than to scrutinise and pronounce on the funds required by each Ministry. You can move cut motions which are either of substance—which is very rare—or a token cut motion of Rs. 100 to disapprove of some policy, the failure of Government to do this, that or the other. It does not mean that you want to save Rs. 100/-. It only means you want to have a discussion drawing attention to a particular grievance. The Finance Bill which embodies the Taxation proposals provides another opportunity for a refusal of supplies.

A second method is the general one of the debate which goes on throughout the year.

A third is Questions. Now, questions can be an important instrument of accountability. By throwing light on a particular action or lack of action on the part of Government, you can certainly make them accountable. Unfortunately, in India, we have not used the question hour to good enough purpose. This is due to the fact that many questions are put by members who speak thus to make up for their inability to join in debate. There is a competition for quantity rather than quality. I am sorry to say that some M.P.s. think it is a great honour to be able to say that they put the largest number of questions last year! The fact that most of the questions are irrelevant, a waste of public time and money, seems to be overlooked. There is real competition between certain M.P.s as to who can put more questions, like scoring runs in a cricket match! The result is that the question hour is largely wasted.

Then again, through a weakening of discipline and the control of the Speaker which I have seen in the last twenty years, because I was in the old Indian Legislative Assembly when the British were here—instead of answering 8, 10 or 12 questions orally, we have now come to 2 or 3. That is because of the battery of supplementaries which never stops. Every member thinks he has a right to put a supplementary prefaced by quite a speech and discipline is so weakened now that the Speaker is helpless to stop them. The result is that at the end of question hour, all except 3 or 4 questions get converted into written replies and the opportunity for putting supplementaries is lost.

Earlier, on the eve of and after Independence, 40 per cent of the questions on the list used to be answered. Now, we have come down to 20 per cent because only one in five is answered. Sometimes only one question is answered.

Now, apart from this waste of opportunity, it is a waste of public time and money. It has been estimated that a question hour in the Lok Sabha costs the taxpayer Rs. 1,500/-. Everyday from 11 to 12 noon that we put questions in Parliament, we, all of us, pay Rs. 1,500/- for that process. There are occasions when one question has taken up the whole hour and cost Rs. 1,500/-. The average cost of question is Rs. 300/- since there are about five questions on an average during question hour. And as I said, many of them do not warrant any public expenditure at all.

Now these are general Procedures but it has been felt that these are not adequate and the effort is constantly being made to supplement these well-known processes.

There are the Administrative Tribunals in France and certain Latin countries. There is the institution of the Ombudsman that the Scandinavians have thrown up with great success, which is now being copied in many parts of the world. The British have a man called the Public Commissioner and we also are going in for a project of the Lok Pal who will approximate to the Ombudsman. I had the pleasure of talking to the Swedish Ombudsman when I was last in Stockholm a few years ago. He was a charming person. He had a little office like a lawyer's office or

a doctor's chamber. He had one secretary, sitting outside, doing his work. I asked him where his office was. He said this was his office. I asked if he had no staff. He said, "No, what do I want a staff for? I have to use my brains and my discretion in a very personal way. I cannot delegate my functions to others." I asked him how he carried out his investigations. He said he borrowed some public officials when he found it necessary, otherwise he did it himself.

I was struck by the humility and modesty of the whole effort and yet this man is a power in Sweden. Nothing is beyond his ken. I found that while we are more concerned with stopping corruption in the financial sense, the Swedish Omudsman is more concerned with stopping arbitrary action, misuse of functions by any public official, including judges. He gave me the example of some Magistrates and Judges who had misused their office by ventilating a private grudge against a party. Where it could be established to his satisfaction that a Magistrate was personally vindictive or had some motivation other than a judicial one, he was even entitled to look into it. That just shows how wide his powers are. In other words, he is a man with great influence and no power.

In America, as you know, they have a very strong Committee system where public officials can be called before Congress or Senate Committees, cross examined, sometimes publicly, sometimes privately, and everything can be probed into. We, in this country, have no such powers. We have what are called Informal Consultative Committees of Parliament. These are big, flabby and useless bodies consisting of 50 or 60 members chosen haphazardly and they had become such a farce that recently the Opposition parties all combined to say that they would refuse to serve on them. Recently they have been re-established with a smaller number of members and a little more seriousness.

There are three standing Committees of Parliament. These are all financial: The Public Accounts Committee, the Estimates Committee, and the Public Undertakings Committee.

In these Committees, we rely a great deal on the Controller & Auditor General who is an Officer appointed by the President in terms of Article 140(1) of the Constitution and who after his appointment is outside the control of the Government in the discharge of his constitutional responsibilities. Once appointed, nobody can touch him. His is a very important office. Assuming that he is honest and a man of some independence, he can be a great influence in the country. So far, I am glad to say that the people who have been appointed have been independent civil servants of great experience and integrity who have been able to assert themselves. He is our Inspector-General. What he does is to prepare Audit Reports, in which he probes into the working of each Ministry and ascertains how they have spent the money given to them in the past year. When his reports come before the Public Accounts Committee, of which I was Chairman for two years from 1967 to 1969, the Committee pick out from these reports paragraphs which appear to them to be worthy of further investigation, and they call the Secretary of the Ministry and his staff and cross-examine them about what went wrong. After evidence is taken, the Committee meet by themselves and adopt a Report which is presented to Parliament. These are of great educative value because not only M.Ps. but also the press and the public have access to them. They throw open to the searchlight of investigation and information dark nooks and corners which otherwise may not be looked into. I am glad to say that most Civil Servants are broad-minded and public spirited enough not to resent it. I may say that during my term of office I found the most ready co-operation and frankness on the part of the Civil Servants who appeared before us.

Two or three impressions I would like to share about our financial Committees are these:

First, it is a good thing that there is excellent team work on these committees. Away from the glare of publicity, people forget about their parties. They work together as watchdogs of Parliament. This is a reality. My own experience is that people forget party labels. I have never found Congressmen saying: "Mr. Chairman, let us not say

this because this will injure our Government." On the contrary I found my Congress colleagues just as keen to show up things that had gone wrong as I or any other Opposition member might be.

This is a very important thing, that so far party or factional spirit has not invaded these Committees. We should be grateful for that, because that at least is a little oasis that has survived in the desert.

The second impression I have got is of colossal waste of public money. I had asked my staff to total up the waste of public money that we had reported on to Parliament from 1st April 1967 to 31st March 1969. We found that expenditure that was **infructuous** and wasted added upto a rather alarming figure of Rs. 95 crores in two years. Some conception might become available from this sample survey of the total loss that might be taking place.

The third impression I have is that the time lag between the spending of the money and the investigation takes away a great deal of the value of our work. Prof. Vikram Sarabhai was one of our best witnesses last year. When he and I had discussed matters after his evidence he said, "You know, what is lacking is that the feed-back is too slow. After all, if you want to benefit from something that has gone wrong, it should come back to you very fast. But if it came to you four years later, as it does, much of the value is lost". This is very true. Most of the time we question people who are not responsible for the lapse. We question their successors. The particular gentlemen responsible have moved on to higher and bigger places and the result is that his successor either, out of misguided sense of loyalty, says: "Well, I imagine what may predecessor had in mind was so and so," which may not be very convincing, or he may be very frank and say, "I think it was an awful mess he made. I have nothing to say in his defence," which is also not very satisfactory, because it might be very easy to let down your predecessor. Both of these are not satisfactory situations.

One thing is to consider reducing the range of the time lag. The other is to consider whether we cannot pur-

sue an official, wherever he has gone, and call him back. We have perhaps a right to do so. We have not done so. Whether this will serve any purpose is a thing which might also be considered.

We now come to a particular part of the problem and that is the public accountability of government's industrial and business enterprises as opposed to administrative Ministries. This is a more difficult and complicated problem. That is because the nature of business and industrial operations is so different from that of civil administration. Normally, in most countries it is not a major issue because public enterprises or State enterprises are small and not a material part of the economy. But this is not so in India. The volume of investment in state or governmental enterprises has gone up very sharply. During the Third Plan, investment in the shape of loans and equity in Central Government undertakings rose from Rs. 953 crores to Rs. 2,415 crores. The corresponding figure at the commencement of the First Plan was only Rs. 29 crores. The nearest available figure of current total investment in Government of India enterprises is Rs. 2,930 crores. The draft outline of the Fourth Plan envisaged an investment of Rs. 3,408 crores and there is a corresponding investment in enterprises at the States level of Rs. 2,000 crores. Now this is a great deal of public money to be invested. It is no longer an academic problem if public money as of today is not being properly utilised.

The latest Audit Report investigating into **six** Central Government enterprises with a total capital of Rs. 1,200 crores finds that the average rate of return in 1965-66 was of the alarming figure of 0.8 per cent on capital invested. Now, this really means that public money is being wasted, because no businessman or industrialist could function if his return was less than 1 per cent of the capital investment. Hindustan Steel, for example, had made colossal losses and this year it has been announced in the press that it is expected to make a loss — the figures have not yet come in — of Rs. 40 crores in the current year. This will show that this is not an academic problem but a very

immediate one of how to stop colossal waste of public money.

Government enterprises take three forms. There were 76 Central Government undertakings by the end of 1966-67. 70 of these were Government Companies, that is private limited companies mostly under the Companies Act where the President is the sole shareholder or the majority shareholder. The remaining six were statutory Corporations: L.I.C., Central Warehousing Corporation, Air-India, Indian Airlines Corporation, Oil and Natural Gas Commission, and Food Corporation of India. These are corporations in the sense that they are set up by statute. There are Acts of Parliament creating these corporations. All other so-called corporations are really private limited companies. They are sometimes called corporations.

The third category is government undertakings run by Government departmentally. These are the Railways, the Chittaranjan Locomotive works—this is run departmentally by the Railway Board—, the Post and Telegraphs run by a Post and Telegraph Board and All-India Radio run by the Ministry of Informator, and Broadcasting. In regard to the last, the Chanda Committee has recommended that it should be converted into a statutory autonomous corporation like the B.B.C. in England.

Now, while the forms vary, the functions of all these enterprises cannot be different. They are the same and if I may venture to suggest what they should be, I would say that these functions are three-fold or should be three-fold.

The first should be, consistently with their responsibility to the tax-payer, who should be considered the shareholder in the enterprise, that the enterprises should run in a businesslike way by serving the consumer, by providing for the production of the best quality goods or services at the cheapest possible price. It should be the broad overall objective of a State enterprise, while conserving the capital that has been given to it by the tax-gayer to serve the consumer by giving him the best quality goods at the cheapest competitive price. You may say that this is obvious, but it is not so obvious because in the Soviet Union this func-

tion of serving the consumer has been altogether neglected. The result is the very frank criticism of the quality of goods and the fantastic prices which the Soviet consumer has to pay. Recently, I was looking at a statement by Mr. Kosygin who hit out at the huge waste of resources both in factories and in transport. This is a theme of criticism which is popular with the Soviet Press. In the Soviet Union, whatever may be the criterion, it is not the service of the consumer.

The second objective should be a fair deal to Labour, to the employees and staff of the State enterprises. This can take various forms: a fair day's wage for a fair day's work, collective bargaining processes freely permitted, joint consultation, and so on. Government enterprises should be a model for Industry. Today, trade union leaders will tell you that they are far from being models. Most trade union leaders have come to the conclusion which the British trade union leaders had come to ten years earlier, that nationalisation of factories does not improve the condition of the workers. Sometimes, there is deterioration in the treatment of employees.

Thirdly, these enterprises should be a national trust to serve the national interest in the broadest sense of the term. Gandhiji's theory of Trusteeship applies here. Those who are given the resources should use them for the public good. Now we come to a vital problem of accountability and that is the reconciliation of the business autonomy of an enterprise with accountability to the public. These are two conflicting principles. Both have great validity. You cannot subordinate one to the other. This is what may be called the dilemma of public accountability. So far as accountability is concerned, I have already made out the case earlier. He who pays the piper has a right to call the tune. He has a right at least to the accounts and information of what is being done with his money. Since Parliament is the tax-payer's representative, it is through that channel that accountability has to be exercised; otherwise the conduct of an enterprise would become completely irresponsible. If public accountability is removed, then the management becomes a sovereign entity capable of

doing anything it likes. So, ultimately control must be with the shareholder, who is the tax-payer.

The claims to autonomy are equally pressing. You cannot run business enterprises unless they are free to be run on business lines with a view to making the largest possible profit and giving the best services to the consumer. Since profit is the test of efficiency, you have to have a profit motive in State enterprises also. Prof. Galbraith has quite rightly denounced what he has called the "post office socialism" of India run on a "no-profit, no-loss" basis. A state enterprise has no right to exist if it cannot make a profit, because profit is the yardstick of efficiency.

The problem is how to reconcile these two principles. On the one hand, we want parliamentary control and on the other hand it would be right to say that political interference with a business enterprise is the kiss of death. I say this as a politician. We politicians are unfit to act as trustees on behalf of the country, because unfortunately, by and large, we think in terms of party or personal advantage. This is true of all parties. It is no good preaching to other parties and pretending that one's own party is an exception. The class of politicians as a whole in India today is selfish and short-sighted and is not capable of exercising a real check in the tax-payer's interest.

Now this makes a very intractable problem. It is no monopoly of ours to find the problem intractable. Britain has been equally defeated by this problem. If you read all the British parliamentary debates on the subject over the last 15 or 20 years, you find that little progress has been made. The dilemma persists. There have been repeated debates in the British Parliament. Mr. Herbert Morrison was a great parliamentarian. I had the pleasure of knowing him. He once said that he would die for Parliament, but he was apprehensive of enterprises being run in a red tapist, inadventurous, civil service frame of mind. What is all right for a Government department is all wrong for business and industrial enterprises. Here was a great Parliamentarian who realised the limitations of Parliamentary control or political control. Sir Geoffrey Hayworth was for many years the Chairman of Unilevers. He was also

utilised by the Government in England to serve on the Board of State enterprises. He once said. "The more I feel that someone is looking over my shoulder all the time and is going to examine these things at any time later, the less I will be inclined to take a decision, and the less decisive I would become and pretty well certainly the less would be the results." I think he put the dilemma of the man at the head of the enterprise beautifully. You cannot function, cannot take risks, cannot take decisions of a business nature if you think the Auditor-General and the Public Accounts Committee will be all breathing down your neck and saying, "Let us catch him out the moment he makes a mistake".

So the sum total of all this discussion is that the State undertakings' responsibility to Parliament must be supplemented by a self-denying ordinance on the part of Parliament in the exercise of its authority. The right is there, but we should not use it except in a limited way.

In India also there have been similar interesting discussions. Dr. Chintaman Deshmukh addressing the Lok Sabha on the 10th December, 1953, on this subject, put it this way: "A certain balance has to be struck between the desirability of ensuring that the public funds are well spent and the desirability of eliminating red tape."

Now, the latest thinking is to be found in an interesting Report by the Administrative Reforms Commission on Public Sector Undertakings published in October, 1967. Between pages 28 and 32 I find some vital or seminal thinking has been done: "It is necessary to achieve a proper balance between the requirements of accountability to Parliament and the need for freedom in the day-to-day operations. A general criterion that can be applied to determine the extent of parliamentary review, where Parliament should stop, is that it should not extend to matters of day-to-day administration. While this criterion is easily accepted, difficulties arise when it is applied to individual cases."

Then the Commission quote their own study team which said: "Often questions get admitted (questions in Parlia-

ment) and answered even though falling within the area of day-to-day administration. Sometimes local information is gathered and supplied, although similar information had been supplied in a slightly different form to an earlier question. We agree with the study team and feel that Ministries should not fail to bring to the notice of the Speaker questions which under the rules in force are not admissible."

Then the Commission go on to discuss the relationship with Government, and the need of evolving a management and control system in respect of public enterprises which would strike a right balance between autonomy and control. Excessive external control inevitably has a frustrating effect on the management, weakening its initiative and restraining it from taking quick decisions on the spot. At the same time Government must have the power to issue policy directives, exercise strategic control and make necessary co-ordination arrangements, keeping in view its overall responsibility.

The study team has found that, while the span of Government control is wider than it need be the effectiveness of the control is not adequate. In other words Government interferes where it should not, but it is not good enough to exercise control where evidently it should be exercised. Ineffective control is worse than no control, because while it inhibits the operation of initiative by an external control apparatus, it fails in its objective of regulating matters in those areas where regulation is essentially required. A well regulated control system should ensure both managerial responsibility and freedom, which constitute the hall mark of successful commercial institution. Control by Government should not be diffused and dispersed over all and sundry items of work, but should be confined to basic things and given the issues Parliament will have to exercise a measure of self-restraint in matters of day-to-day administration.

And then they come to their recommendations. They say: "We recommend that no officer of a Ministry should be made Chairman of a Public undertaking, nor should the

Secretary of a Ministry be included in the board of management. Any suggestions from Government to a public undertaking, asking it to act in a manner different from that dictated by economic considerations, are invariably to be made in the shape of a formal directive and should be duly brought out in the annual report."

This is an important thing. It seems that the Government interferes secretly. The Minister tells the Secretary who is the Chairman of an enterprise to do or not to do something. Thereby public accountability is in fact defeated, while it is supposed to be practised. This is very important. If a Minister interferes, let him put it in writing. We remember the Mundhra case. What an amount of confusion was caused by the absence of the Minister's written orders. The Report makes a very good working paper on which further discussion can take place.

Unfortunately, to judge by a press report in the *Times of India* on 5th January, 1968, the suggestions made there did not find favour with those who are in office today. I quote a sentence from the *Times of India* report from Delhi. "The most important but unstated objective is that this would mean an abridgment of the administrative Ministries' power of control and patronage. The location of important projects also becomes generally a matter of political rather than economic decision."

The result of all this has been a fairly disastrous one. Mr. Lee Kuan Yew, the socialist Prime Minister of Singapore, visited Bombay some years ago to address an Asian Socialist Conference and he put a question there which poses the problem in a different way. He said: "It is pertinent to ask how is it that in Asia countries like Japan, Eongkong, Formosa, Thailand and Malayasia which are bustling free enterprise societies, have achieved success, while countries professing socialism have failed to produce satisfactory results?"

Prof. Galbraith, another socialist who was U.S. Ambassador in India, was considerably educated during his term of office here. He came as a wild socialist and went back very chastened. He has recently published a new book



called the "New Industrial State," where he draws on his somewhat unhappy experience. He says: "There have been experiments with aggressive public control, which served to show that this is not an alternative. In India and Ceylon and also in some of the new African countries, public enterprises have not, as in Britain, been accorded autonomy. Here the democratic socialist prerogative has in effect been fully asserted. India in particular, as a legacy of colonial administration, has an illusion of official omniscience which extends to highly technical decisions. Moreover poverty makes for nepotism and favouritism in latter countries both more tempting and more culpable than in countries where jobs are more plentiful and business easier to come by. This also seems to call for further review. Rigid personnel and civil service requirements may prevent easy constitution and reconstitution of groups with information relative to changing positions. The effect in these countries of this denial of autonomy has been exceeding inefficiency in operations by the public firms. In India and Ceylon nearly all public owned corporations operate at a loss, a situation which is similar in other countries. One result is that a large number of socialists have come to feel that public corporations are by their nature, in the words of a Minister in the Harold Wilson Government 'remote, irresponsible bodies immune from public criticism or democratic control.'"

This seems to be pretty well an admission of defeat by these two leading socialists. This raises the problem: "Can we reconcile public accountability with business management?" This is the real problem.

My own answer would be that the conflict between business efficiency and political control is irreconcilable.

This stems from the fact that industry and business are not functions of Government. Various organisms are thrown up by human society as it develops through the ages to meet certain needs. Governments have been thrown up to maintain order internally, do justice between citizen and citizen, and to protect the country from outside. These are the basic functions of a Government, protection from

external aggression, maintenance of internal order, protection of life and property, maintenance of justice. And when they perform these functions, their performance can be very good. If they are good governments they can perform these functions to the people's satisfaction. But the best government, as far as I can see, cannot perform the function of a business management.

Perhaps in this case the simile of the organs of the human body is not altogether irrelevant. The whole body, as it has developed from the protoplasm, has developed various organs for various functions. If you try to make one organ perform the functions of something else which is not its function, it fails. You cannot smell with your eyes, you cannot see with your ears, you cannot hear with your nose, you cannot digest with your lungs, you cannot breathe with your stomach. To me it appears that a State enterprise is an essential distortion of a functional organ and that when we try to do something for which it is not intended it is bound to fail. It may fail more or less, according to circumstances, but it is bound to fail. And what Mr. Galbraith and Mr. Lee Kuan Yew have admitted is that State Industry and trade do not work. This is a basic conclusion to which one is driven by whatever study one has made over the years.

Assuming that there is no perfect solution to the problem of reconciling of efficiency and autonomy on the one hand and accountability on the other, what are we to do? I agree with the report of the Administrative Reforms Commission that in this attempt to reconcile two conflicting principles, we have leaned too much on the side of public accountability and too little on the side of business efficiency and autonomy. The report tries to bring us back to the centre of the road, as it were, to bring us in line with the general groping for a solution in Britain and in other democratic countries. So I would be inclined to say that the first thing to do is to lessen the degree of political control and increase the degree of business autonomy.

The second thing I would urge is that Competition is a therapeutic factor. It is competition that can solve the problem more perhaps than any thing else. In other words, monopoly is bad wherever it comes about. It is particularly bad in State enterprises because when the policeman and the monopolist become one, there is no appeal at all, while in the case of private monopolies there is always the State, the neutral policeman, to appeal to for justice. Unfortunately, in all governmental thinking so far, State monopolies have been excluded from the purview of investigation and legislation.

If competition is there, then some of the evils that Prof. Galbraith and Mr. Lee Kuan Yew pointed out could be mitigated. In other words, if the Life Insurance Corporation were to compete with several private life insurance companies, many of the defects would be eliminated by the process of competition. If the Indian Airlines Corporation had one of those private airlines competing on the same route, I can assure you that the service and regularity would improve because there is somewhere else to go. But to-day, when the hostess very charmingly at the end of the voyage says: "We hope to have the pleasure of flying with you again," one's comment is: "Where else is there to go? We shall jolly well have to, whether we like it or not."

So I would say that even more germane than the discussion that goes on about accountability is the therapeutic factor of competition, of the restoration of competition wherever there is a State or private Monopoly today. If tomorrow Government was sensible enough to say, "Any one who wants to can start an insurance company or a private airlines" and similarly with other monopolies, there would immediately be a toning up of the efficiency in those areas. So my second suggestion would be that monopolies should be banned and competition restored.

The third conclusion to which I come is a more drastic one, that is, whether there should be any further State enterprises set up at all outside the sphere of the infrastructure, by which I mean the legitimate role of government, which has now expanded from law and order and

justice to the provision of certain basic services required by the community at large. Now here again one can argue. If I mention the railways, people will say that there are railways in America and elsewhere which are run by private enterprise very much better than our Railway Board does and I agree. But I am talking now of India as we find it and I would be prepared pragmatically to say, let irrigation, the supply of water, the supply of electric power, the supply of various forms of transport and communication and telecommunications, let these be considered to be public utilities which government have a right to run, but not as monopolies. By and large, let us assume that these are public utilities which are legitimately within the sphere of the State. But anything outside this sphere should be completely taboo from now on for entry by the State. The State should not try to manufacture anything. It is a very-poor manufacturer. It is not made to manufacture. Joint-stock corporations have been thrown up as a legitimate organ for manufacturing things. Let them do their job.

This conclusion is important. It was arrived at by Dr. John Mathai when he was Chairman of the Taxation Enquiry Committee as far back as 1953. Speaking in Bombay on 21st September, 1953, Dr. Mathai, who had considerable experience as Finance Minister, said: "When a business calls for energy, drive, enterprise and specialised management, the proper solution is not to shelter officialdom from parliamentary scrutiny but to leave such business in the hands of private enterprises, subject to the general control of the Government". This is really the answer to the problem posed by Galbraith and Mr. Lee Kuan Yew.

What do we do with the present State enterprises which have proved to be a failure? This problem has arisen in other countries also—in Germany, in France, in Japan. There, they have been sensible enough to draw the right conclusion and say: "Well, we cannot do this job. Let others who can do better, do it."

What they have done is to go through what is called the process of Privatisation, which is the reverse of natio-

nalisation. You put the shares of a State enterprise on the market, try to And someone who can buy them, though I cannot imagine anyone who will buy the shares of Hindustan Steel Ltd. today! Anyway, an effort should be made to sell them to those who can run the show, and the management should be handed over to those who are prepared to take the risk. This process has been gone through in Germany, in Japan and in France with considerable success. The state has been reached where, if we had a reasonable Government, this is the conclusion to which the Government would have to come. The best thing is to cut one's losses as a businessmen does.

The Yugoslavs, who are communists, have arrived at this conclusion. I was in Yugoslavia in 1955 and talked to Governmental people and trade union leaders and managers. All of them, including trade union leaders, were unanimous that where a public enterprise fails to make a profit or supply goods to the consumer which are acceptable to the consumer, it should be allowed to fold up. I was rather startled at Yugoslav communists saying this to me. I asked: "What will happen to the workers?" They said: "They deserve to be unemployed. They must realise that they have made a mess of it and they must suffer a little". What about the Managers? The answer: "They should be prevented from becoming managers for a period of five years, and made to go back to the bench and work as ordinary workers, to punish them for making a bad job." This seemed to me to go back to the good old days of 19th century *laissez faire* and I said it would be too harsh as I saw it. But it just shows how the Yugoslav Communist does not shrink from coming to ruthless conclusions to which he has been driven by his own defeat.

*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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