

# The Tata Iron and Steel Co Ltd

Speech delivered by the Chairman Mr J R D Tata at the 46th Annual General Meeting of the Shareholders held on Thursday, 3rd September 1953

LADIES AND GENTLEMEN,

I am sure you will wish me at the outset to say a few words about Dr Matthai whose appointment to the Taxation Enquiry Commission has necessitated his resignation from the Boards of the Steel Company and Tata Industries and whose services, for the second time in seven years, we have lent to the State for an important national purpose. I should like on your behalf and mine to express our gratification at his selection as Chairman of the Commission and pay tribute to him for his public spirit in undertaking this heavy task at considerable personal sacrifice to himself.

2. Dr Matthai has contributed much to the fields of economics, industry and administration to which he has brought a degree of realism and clear thinking somewhat rare these days.

3. On the Matthai Commission rests a heavy responsibility as its findings and recommendations will have considerable influence on the fiscal and taxation policies for many years to come. Those of us who have known Dr Matthai for many years can have no doubt that the task will be accomplished with wisdom and a deep knowledge of the subject. On your behalf and mine, I wish him and his colleagues all success in their difficult assignment,

4. On the resignation of Dr Matthai, your Directors appointed Mr J D Choksi as Vice-Chairman of the Company. Mr Choksi, who has been a Director of the Company for many years and is a senior Director of Tata Industries, is well known to you all. I am sure you will approve of his appointment.

5. Since we last met a year ago important developments have taken place on the world's political and economic scene. Perhaps the most significant is the apparent change which has taken place in Soviet policy since the death of Marshal Stalin. While it is too early to judge what the real reasons for the new trend are, how long it will last and where it will ultimately lead, it can no longer be doubted that it has eased international tension both in Europe and the Far East, and

brought hopes of better days to millions of peace-hungry people. Business and industry in particular should unreservedly welcome it, for there are few more untrue and yet more studiously fostered theories than that capitalism thrives on war or preparations for war. In actual fact, war and its aftermath of economic chaos more than any other factor in this century have been responsible for the decline or disappearance of capitalism, and, along with it, of democracy in large parts of the world. While business and industry may derive temporary stimulus from war orders, in the long run they can flourish only under conditions of peace and stability in which the people have an inducement to save and to build for the future.

6. Particularly in poor and relatively backward countries like our own, the vital need for economic and social development is totally irreconcilable with the diversion to defence of an unduly large part of available resources. We have therefore everything to gain from a lasting peace throughout the world in general, and from the peaceful settlement of all outstanding problems in our own neighbourhood, in particular. The resulting release of additional funds for nation-building purposes would, over a period of years, make a substantial difference to the economic health of the nation.

7. In the meantime, the economic situation in the country as it has evolved during the last year shows little cause for complacency. Although agricultural and industrial production was somewhat better in 1952 than in the previous year, the volume of trade, particularly foreign trade, showed a substantial fall. Bank advances fell by nearly Rs 70 crores, while the volume of money with the public decreased by Rs 37 crores over and above the reduction of Rs 173 crores in 1951-52, representing a total decrease of Rs 200 crores for the two years. Taking all factors together, it seems evident that money income, ie, the purchasing power of the people, has been reduced.

## UNEMPLOYMENT

8. One of the most disturbing

symptoms of our economic malaise is the increasing unemployment reported from various parts of the country in recent months. Economists and financial experts have been at some pains to explain to us the reasons for this sudden aggravation of a long-standing problem. I wonder at the almost complete absence of any reference in any quarter to the growth of our population as one of the causes of this alarming trend, if not the major cause.

## POPULATION

9. When addressing you two years ago, I referred to this formidable problem and made a special plea that as a first step Government should constitute a high-power commission to investigate it in all its aspects. Nothing has been done and I feel I must once again use my small voice to sound the alarm at the gathering shadows which threaten to overwhelm us.

10. Our population is increasing at the rate of nearly five million a year. Even if we sought only to maintain the existing population on its present low standard, we would have to find work each year for an additional two and a half million men and women. As the land is already over-burdened with manpower, employment would have to be found for them outside agriculture, ie, in industry and services. Even assuming a much smaller capital expenditure per industrial worker than in Western countries and a high proportion of employment in small-scale industries and services requiring little or no capital equipment, the financial and other requirements would be well beyond our present means.

11. But if it were possible, for the next twenty-five or fifty years to keep our population static or at least to reduce the rate of its growth, which, I am convinced, is not beyond the medical, scientific and administrative possibilities of the day, the whole picture would change and every successive advance in our economic output would result in some improvement in the living standards of our people. I therefore plead once again that early steps be taken to undertake a continuous and scien-

tific study of this vital problem in its biological, economic and social aspects, for it is only on the basis of established facts and possibilities that subsequent action can be taken if found necessary and practicable.

12. I do not for a moment suggest that in the negative task of controlling the growth of our population lies a universal remedy for our economic ills. But such control is necessary to enable constructive work to bear fruit. Real progress could be achieved only if, simultaneously, we continued to make every effort to increase the productivity of our country. I am not sure, however, that even on this positive side of our task we are proceeding in the best possible way.

#### MIXED ECONOMY

13. Our Government have adopted the concept of a mixed economy for the country, a concept which has found broad public acceptance and in which business and industry are anxious to co-operate. A mixed economy, however, implies the co-existence of State enterprise and free enterprise, and cannot mean a wholly State-dominated economy where the industrial class is temporarily tolerated and permitted to survive, pending further developments. A mixed economy can only function if there is within the community a balance of forces, with free enterprise operating as one of the autonomous forces pulling its weight alongside State enterprise, trade unions and other elements in society.

14. I am led to make these observations because I have noted a tendency on the part of Government, perhaps not deliberate, to deny to free enterprise a voice, or even consultation, in matters vitally affecting it or the economy as a whole. The manner in which, for instance, the Indian air transport industry was recently nationalised and the terms on which this was done would seem to indicate that Government sees no reason to carry with it the industrial sector and its representatives or even to give them a hearing before making up its mind. May I suggest that the time has come for Government to clarify their position and to state whether their ultimate goal is in fact a mixed economy in which both sectors are permitted to function efficiently, or a State monopoly of all industrial enterprise?

15. In contrast with conditions

in our own country a clear reversal of trend is taking place in most other free countries of the world after many years' experience of State ownership and rigid control of all economic activities. The truth is beginning to dawn, elsewhere at least, that State Socialism in action as distinct from theory is hardly the economic and social panacea claimed by its advocates and that it does not lead to a classless society but to a dangerous concentration of all economic power into a few bureaucratic hands, which while acceptable in a totalitarian state is irreconcilable with real democracy.

16. This is not a plea for a return to the old time *laissez-faire* in economic matters. The interest of the nation as a whole must prevail over the interests of the few. The State must, where necessary, exercise a reasonable, but not a paralysing, degree of supervision over industry and business. It should also take a positive part in production in such fields as are best suited to its organisation and methods, within the limit of its resources and subject to a realistic, assessment of priorities. But it should not lose sight of the primary objective which is to expand production and employment. That object cannot be achieved by discouraging creative enterprise and initiative, inhibiting savings and destroying the confidence of the investor. I earnestly believe that realistic and well thought out policies, free from doctrinaire considerations and aimed at encouraging production, fostering savings, recognising honest and efficient management while deterring anti-social activities, would go a long way towards energizing free enterprise. They would also help to instil in the private; sector a sense of trusteeship as advocated by Mahatma Gandhi and would put squarely upon it the responsibility for placing national above sectional and personal interests. Such policies in respect of the private sector combined with State enterprise in appropriate fields, assistance to small scale and cottage industries and to the co-operative movement, land and social reforms and measures to control the growth of our population, would in my humble judgment provide the right kind of programme to revolutionize the economic activity of the country and to make a real success of the concept of a mixed economy.

#### ACCOUNTS

17. Coming to our own affairs,

I need say little more about the operations and profits of the Company during the year under review than that they were mainly characterised by a small reduction in production and despatches on the one hand, and a continued upward trend in costs on the other, the largest single item being as usual in respect of payments to employees.' As, however, most of the workers at Jamshedpur have now reached the top of the incremental scales introduced in 1947-48, I hope we may look forward for a period to some measure; of stabilisation in the total amount of wages paid and in the labour costs per ton.

18. Production until 1955 is likely to be somewhat lower than" in 1952-53 as a result of modifications to the plant under the modernisation and expansion programme. As this expected reduction has been taken into account by the Tariff Commission in estimating costs and fixing prices, the profits of the Company are not likely to be affected thereby.

19. The Shareholders will note from the balance sheet that, for the first time in many years, the trend towards higher stock figures has been reversed in respect of raw materials- Since the close of the year under review, increased despatches, particularly of old stocks, have further reduced our inventories. We hope gradually to reduce also our stocks of stores and spare parts as a result of the overhaul of our stores facilities and procedures which is now approaching completion. As against this, our heavy programme of capital expenditure and the consequent creation of entirely new plant and equipment will tend to add to our stocks to some extent but by careful control and planning helped by quicker deliveries resulting from an improved international situation, we hope to maintain our total stocks at a reasonable figure.

#### TARIFF COMMISSION ENQUIRY

20. The findings and recommendations of the Tariff Commission and the orders passed by Government on the subject have been described at some length in the Directors' report. I shall therefore confine my remarks to only one point of special importance to us, namely, the Government of India's rejection of the Commission's recommendation for a 2 per cent increase in the return on the gross block, subject to such increase being taken to reserve

for the specific purpose of modernisation and expansion. We have during the last few years repeatedly represented to the Tariff Commission and to Government that a gross return of 8 per cent on capital expenditure, leaving a net return of about 3½ per cent was totally inadequate to build up sufficient reserves or to attract fresh investment in the industry for financing the modernisation and expansion of the plant. We were therefore gratified to find that the Commission had accepted the Company's strong case on this point and recommended an increase which though small would have enabled us to set aside and ultimately plough back into the industry an additional Rs 50 lakhs or so per year. Government, however, rejected this recommendation on the ground that they had already agreed to advance to the Company a loan of Rs 10 crores, towards the financial requirements of the expansion programme.

21. While it is true that Government have agreed to make such an advance to the Company on favourable terms and subject to repayment only out of a future increase in return, for which we are grateful, I feel that acceptance of the small increase recommended by the Tariff Commission would not have been inconsistent with the grant of the proposed advances, as Government could have directed that it be used either to reduce the total amount of their loan or to accelerate its repayment. Government must surely be aware that they cannot possibly attract risk capital, either Indian or foreign, to this industry on the basis of a net return of 3½ per cent. Considering that the lack of capital has been, since the war, the main obstacle to the creation of the additional steel capacity so badly wanted by the country, I hope that Government will find it possible to reconsider the position they have taken up on this issue.

#### PROFIT-SHARING BONUS

22. The profit-sharing bonus scheme agreement between the company and the Tata Workers' Union at Jamshedpur, which was in force since 1948, expired last year. The Union expressed a desire to enter into a new agreement on similar lines for a period of years but with a higher percentage of the profits. In view of the impending Tariff Commission enquiry into steel prices, at which labour costs and our plea for the inclusion of the profit-sharing bonus as an item of cost were

likely to be discussed, negotiations were postponed and could only be resumed recently after the publication of the Commission's report and Government's orders thereon.

23. We have now entered into a fresh profit-sharing agreement with the Tata Workers' Union on terms similar to those of the previous agreement but with the percentage of net profits payable to labour increased from 27½ per cent to 30 per cent. As there was no agreement in force for the year 1952-53, an ad hoc settlement for that year has been made whereby a sum of Rs 106.50 lakhs will be distributed as against the sum of Rs 98.53 lakhs provided in the accounts. The additional amount will be a charge on the profits of the current financial year.

24. In the course of the protracted negotiations with Mr Michael John, the President of the Union and President this year of the INTUC, we pointed out that there was no case for any appreciable increase in the profit-sharing bonus, and that any such increase would come out of the shareholders' modest net return on their investment. We emphasised the very large increase in the total emoluments of labour which the Company had granted in various forms in the last few years, resulting in a substantial increase in their real earnings, without any corresponding return to the Company in the form of greater efficiency or output *per capita*. At the same time, we accepted the contention of the Union representatives that peace had been maintained in the industry.

25. We discussed at length the means by which labour output could be increased and agreed that the existing incentive schemes should be modified so as to lay greater emphasis on productivity. We had also a helpful discussion regarding the ways and means by which efficiency could be increased and discipline promoted. We hope that, as a result, a better understanding will prevail in the future between the Company and the Union on these important issues, and that in the course of time worthwhile results will be achieved.

26. We must, however, face the fact that today the prospects in India of a substantial increase in output *per capita* are not very promising. While in industrially more advanced countries management, unions and Government are all agreed on the benefits of high labour

productivity, and all three co-operate towards its achievement, we are faced here with a continuing reluctance to learn from the experience of a century of industrialisation in Europe and America and to accept the fact that increased productivity does not lead to unemployment, but, through increased purchasing power, to enlarged opportunities for employment. In spite of a continuous reduction in the number of men employed per unit of production as a result of mechanisation and greater efficiency, total employment in Europe and America is today at a higher level than ever before.

27. If in their anxiety to deal with the present unemployment in the country our political and labour leaders adopt policies which frustrate attempts at improving efficiency and output *per capita* in industry, such policies will jeopardise any chance that India may have of rapid economic progress, destroy her competitive position in world markets and, as a result, ultimately lead to still greater unemployment.

#### DEFERRED SHARE CONVERSION SCHEME

28. I hope this is the last annual general meeting at which I shall have to discuss the deferred share conversion scheme and that the scheme will have been put through well before we meet again next year.

29. The long drawn-out mediation proceedings which began early in 1951 were completed in May this year with the publication of Mr Motilal Setalvad's award. In accordance with their previous undertaking, the Directors have accepted the ratio recommended by the Mediator. The legal and other formalities required to put through the scheme are in hand and the special meetings of the two classes of shareholders will be held early in November.

30. In pursuance of the decision of the Directors and the Managing Agents to remain entirely neutral in the mediation proceedings, an attitude which they rigorously maintained throughout, I do not propose to express any view at all on the recommendation of the Mediator which, as I have said, has been accepted by the Directors and embodied in the scheme. Our neutrality, however, applied only to the mediation proceedings and not to the conversion scheme itself to which we are wholly committed and which we consider to be more than ever

in the Company's interests. I deem it my duty therefore to draw the attention of the shareholders to the activities of a small minority of deferred shareholders, who are making every effort to defeat the conversion scheme.

31. It was mainly at the instance of this very group that your Directors agreed to refer the conversion ratio to the advice of an independent mediator. I leave it to you to judge the propriety of the action of these same shareholders in now seeking to reject the opinion of such a distinguished and obviously impartial person as the Attorney-General of India merely on the ground that his recommendation falls short of their demand. I trust that the majority of the deferred shareholders who have their own interests and those of the Company at heart will not be misled by the propaganda of the opponents to the scheme.

32. I hope every deferred shareholder who is in favour of the scheme will realise the necessity of being present at the special meetings and casting his vote, as the voting requirements under Section 153 of the Indian Companies' Act are such that every vote which is not cast is in effect equivalent to a vote against the scheme. Before leaving the subject, I may mention two other points concerning the scheme which I believe are of special interest to shareholders.

33. The first one refers to the proposed issue of bonus shares to be made simultaneously and in effect as part and parcel of the conversion scheme. I have on numerous occasions mentioned the Directors' desire to make available to the shareholders in the form of bonus shares a part of the reserves accumulated from undistributed profits in past years, as soon as the disappearance of the deferred shares made such an issue practicable. Your Directors decided that, subject to the approval of the Government of India, this proposal should be implemented simultaneously with the conversion of the deferred shares, and that it should consist of the issue of one new ordinary share, for every ordinary share held after conversion. The conversion scheme together with the bonus issue will involve the capitalisation of about Rs 6.87 crores out of the Rs 11 crores in the reserve fund, and will bring up the total issued capital of the Company to Rs 17.33 crores, of which Rs 7.69 crores will be preference capital and

Rs 9.64 crores equity capital. I hope that this added feature of the conversion scheme will meet with your approval.

34. The second point refers to an assurance sought by the shareholders and given by me first in 1950 and again in 1951, that the Directors would not seek to raise fresh capital in the near future and until the investment market improved. Two years have passed since then and in response to the request of some shareholders, I willingly renew my previous assurance. I hope that this will satisfy those shareholders who still harbour fears on the subject, but I also hope that it will not be interpreted as meaning that we shall never need to raise fresh capital. If the Company is to continue to hold its position in the industry and to play its full part in the economic development of the country, it must continue to expand in the future as it has in the past, whenever the opportunity arises. To the extent that we can finance such expansion out of internal savings and borrowings, we shall do so, but if, in view of the enormous cost of iron and steel making plant, we have to seek funds beyond our own savings, some issue of capital may prove necessary. However, no decision to issue fresh capital will be taken without consulting the shareholders.

#### EDUCATIONAL GRANTS

35. In my speeches of the last two years I have mentioned the decision of the Managing Agents to forego a part of their commission with a view to placing it at the disposal of the Company for providing engineering and other educational facilities in the areas in which the Company's main operations are carried on. In pursuance of this decision, the Managing Agents waived a sum of Rs 7½ lakhs for each of the last two years and Rs 5 lakhs this year, bringing the total to the figure of Rs 20 lakhs, subject to tax, which they originally had in mind. Out of the funds so made available, the Board have already sanctioned grants of Rs 4 lakhs for a college in Chaibassa, a little under a lakh spread over the next five years for engineering scholarships to Bihar students, Rs 6 lakhs to the Bihar Institute of Technology at Sindri, and Rs 3 lakhs for setting up a Polytechnic Institute in Hirakud, Orissa. These grants and proposals are in addition to the maintenance of a chair in Geology

in the Patna University at a cost of Rs 18,000 per annum.

36. Before closing, I believe you will wish me on your behalf to place on record our sorrow at the death of Mr Jagmohandas Kapadia whom we all miss at this meeting today. As Secretary of the Bombay Shareholders Association and as an expert in Company law and accountings Mr Kapadia applied his great abilities and devoted much of his time and energy to safeguarding the interests of the investor and to promoting sound and honest management. In him the investing public have lost a stout-hearted champion. His place will be hard to fill.

37. As usual, I have much pleasure in placing on record our appreciation of the good work put in by the management and all employees at Jamshedpur and elsewhere during the year. In our skilled workers, our supervisory staff and our top management, we have a fine team of men who constitute an invaluable asset not only to your Company but to the country as a whole. The continued success of the Company's operations is safe in their hands and we extend our thanks and good wishes to them.

#### Economic Possibilities of Coral Reefs

About 200,000 tons of coral reefs may be available annually from the Gulf of Manaar which can be used for small-scale manufacture of bleaching powder, caustic soda and materials requiring high lime content and also as whitening in distempers and paints, according to a recent investigation of the area by the Geological Survey of India. All the coral islands are situated within a distance of five miles from the coast and within the thirty feet depth line in the sea. The two largest islands have an area of about half a square mile each and support two or three coconut plantations.

The reefs fringing the islands in the Gulf of Manaar have been used as building stone and even as road metal in Tuticorin for many decades. A large amount of coral stone has been used during the last world war for the construction of buildings for the Navy at Mandapam. The estimated reserve of coral material in the Gulf is about 2.25 million tons, but as the lime in the reefs is deposited by living corals and other organisms, the reefs can grow again even if they are removed, supplying about two hundred thousand tons steadily every year.