

How Not To Run State Undertakings

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The great debate is now on how to run the public sector of industry and whatever the form selected for it, public undertakings are going to be the dominant form of future economic organisation. But the Planning Commission has not yet made up its mind as to what this form is going to be. "Questions relating to the organisation of public enterprises are under constant review and greater experience is needed before a clear view as to the relative advantages of different forms of organisations emerge"

In this context, the Report of the (Committee of Enquiry into the British Electric Supply Industry, which is now a State undertaking, would be both interesting and instructive. The Committee was firm that a nationalised industry can and should, be run strictly as a commercial concern.

THE broad outline of the economic system under which the Second and successive Five Year Plans will be implemented has been formally defined by the Government of India in the industrial Policy Resolution of April 30, 1956 which supersedes the earlier 1948 resolution on the same subject. This postulates an extension of the public sector and gives the warning that, industrial undertakings in the private sector will necessarily have to fit into the framework of the social and economic policy of the State,

While there can be no compromise on the fundamentals laid down in the Industrial Policy Resolution, the "great debate" as to how the undertakings already in being, and to be created, in the public-sector should be run is a subject which assumes growing interest.

Great Debate

Recently Parliament discussed a private Member's resolution calling for an investigation into the working of the public sector. The resolution fell through because it was felt that a roving commission charged with a general enquiry would serve no useful purpose. Nevertheless, the debate served the useful purpose of drawing attention to the fact that there is such a thing as the "forgotten public" whose interest has not received adequate consideration in the process of hailing and nursing the dominant economic organisation of the future the public sector. Perhaps under more favourable circumstances in the future, enquiries by expert bodies on the working of specific segments of State and quasi-State industrial undertakings would evoke better response. In this context the very interesting report of the Committee of Enquiry into Electric Supply Industry (of which Sir Edwin Herbert was the Chairman) on the working of the U K Electric Supply Industry published in January, 1956, deserves careful study and its findings on how a nationalised industry should be run merit serious

consideration. Although the Herbert Committee's enquiry covered only one industry (electricity generation and supply) the principles adumbrated in the report, have much wider significance.

Historical Background

The committee was appointed in July 1954, "to enquire into the organisation, and efficiency of the electricity supply industry in England, and Wales in the light of its working under the Electricity Act, 1947, and to make recommendations.

Before discussing the basic recommendations of the report, it would be appropriate to make a brief reference to the historical background of Great Britain's socialised electric supply industry. Under the XI K Electric Lighting Act of 1882, there came into being what are called 'undertakings with authority to supply in a specific area'. With progress in electric supply came the Electricity (Supply) Act of 1919 which provided for the setting up of a Supervisory Board known as the Electricity Commissioners, charged with the task of promoting, regulating and supervising the supply of electricity. In order to carry out their responsibilities, the Electricity Commissioners sought voluntary agreements between various undertakings so as to concentrate generation, through pooling and mutual use, in a relatively small number of efficient generating stations. The Commissioners had no powers to compel electricity undertakings and hence the progress of rationalisation was slow. This led to the creation of the Central Electricity Board under the Electricity (Supply) Act of 1926, on which was modelled the provisions regarding Electricity Boards in the Indian Electricity (Supply) Act, 1948.

The next stage was the enactment of the Electricity Act of 1947, nationalising the industry, under which the British Electricity Authority (since designated the U K Central Electricity Authority) superseded the Cen-

tral Electricity Board on 1st April 1948, took over the latter's functions as well as those of the Electricity Commissioners, and also absorbed some 560 authorised undertakings. The Central Electricity Authority was super-imposed over a secondary tier of Area Electricity Boards, 12 in number, and it is this two-tiered organisation which the Herbert Committee set out to examine critically.

Basic Recommendations

The Committee took the position that a nationalised industry can and should be run strictly as a commercial concern, as otherwise the industry "could be used as a device for implementing national policies and for transferring income from one section of the community to another without the burden of these policies being properly weighed in Parliament or by the Minister". The Committee was against preferences of any kind, either by areas or class of consumers. It did not favour subsidy in the form of financial reliance on Treasury guarantees. It dubbed historical cost accounting as unrealistic and thought accruals in the held of depreciation based on this cost as illusory. The Committee underlined that a nationalised industry should stand comparison to the best in the private sector, both in service to its customers and the well being of its staff

A nationalised industry may succeed in passing the usual tests, and yet fail to give its customers as good or as cheap a service as it might under a different set up. This was the hard core of the problem that the Herbert Committee had to answer, and while it was unanimous in its report that the industry was not in any reasonable sense of the term inefficient, the Committee added the qualification that the "efficiency of the industry could be improved" and also that "it is in danger of losing efficiency partly for reasons beyond its control". This attitude is not only in keeping with the British national trait of under-statement;

applied to nationalised undertakings, it shows the British way of combining the best features of both the conservative and socialistic elements. In other words, the British may take some of their economic policies from their Labour Party, but they try to make most socialistic experiments work more efficiently by placing them in charge of hardhearted conservative businessmen. There may be some exaggeration in this generalisation, but the inference is difficult to resist that at bottom, this is the principle followed.

Disciplinary Force

Nationalised industries may be getting along without any breakdown of service or may not arouse widespread complaint, or criticism. Some of them may be even expanding rapidly. Nevertheless, doubt will remain, in the absence of independent checks at least occasionally, whether they are doing as well as they should. In the case of an industry functioning under competitive conditions, the criterion of success is profits (by whatever name called) which permit continued expansion and attract equity capital. This implies working conditions satisfactory to both management and labour and performance which commands the confidence of the investor. The standards set for State undertakings should be such that they satisfy the criteria that are applied to commercial undertakings.

Even in the field of supplies to rural communities on which subject sentiment plays a large part with all Governments, leading to jettisoning business standards—the Herbert Committee has come out with the recommendation that normal economic and commercial tests cannot be abandoned. This is certainly an impeccable standard and modification could be justified only where there is a definite national mandate to sustain uneconomic development. In other words, application of any policy which may impair the commercial responsibility of an undertaking should be considered only in rare cases.

Size of Undertakings

The working rule of the Committee that the size of a nationalised industrial undertaking should be no larger than what is necessary to achieve economic viability is of general application. This may sound paradoxical when applied to a nationalised industry. But, nevertheless, this is a necessary concession to reality, if commercial organisations are to function as economic units.

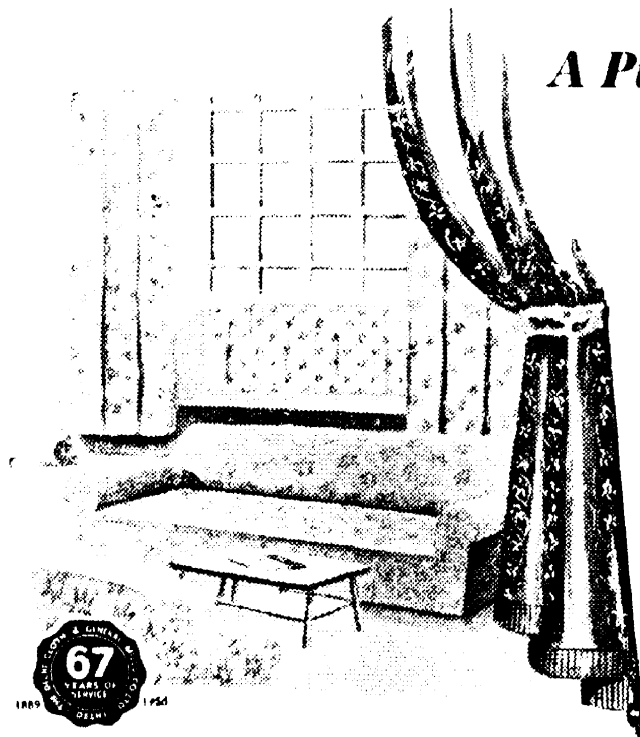
The need for retaining trained personnel already employed, and for attracting suitable personnel in the future, is yet another aspect of the problem which is typical. The need for reviewing conditions which might tend to cause well-qualified persons with the calibre of potential leaders turning away from any particular

industry is ever present, from which stem the policy to so frame service conditions as to ensure a continuing flow of suitable men. Allied to this is to limit centralisation to the degree necessary to ensure policy control and to delegate authority to organs at the peripheries, so that they could be induced to shoulder responsibility.

Emphasis on Commercial Aspect

To sum up, in the working of nationalised undertakings, the emphasis should be on commercial aspect and on the running of the undertaking on business lines. The enthusiast for public ownership may demur; "How commercial can you be"? No better answer to this can be given than that given by the Indian Taxation Enquiry Commission which saw "no objection to pricing policies which aim, over a long period, at realising a surplus from the operation of the undertakings". While conceding that "public purpose rather than profit should be the guiding factor in the operation of a public undertaking", the Commission, recommended unhesitatingly that "every effort should be made to place Government industrial undertakings on a sound financial basis so that losses are avoided and a reasonable return is secured as far and as soon as possible".

To ignore the implications of these remarks is to invite economic chaos, which will benefit no one in particular.



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