STATE TRADING IN A DEMOCRACY

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

—Eugene Black

President, World Bank

INTRODUCTION

The setting up of the State Trading Corporation and its subsequent activities have formed the subject of a countrywide controversy. Recently the Estimates Committee of Parliament submitted a report on S.T.C. In order to gain a proper appreciation of the utility or otherwise of state trading to the national economy, the Forum of Free Enterprise organised a symposium on the subject on May 6, 1960, in Bombay. Dr. S. G. Panandikar presided. This booklet brings together the text of the speeches delivered at the symposium.

MONOPOLY PRACTICES OF STATE TRADING CORPORATION HURT NATIONAL ECONOMY

By

DR. S. G. PANANDIKAR

It is the monopoly of the State Trading Corporation which is doing so much harm to our national economy. If S.T.C. is made to be only one of the traders, the harm would be very much less. It is said that State Trading in foodgrains is required on account of the anti-social activities of traders. If that is so, the right and proper thing would be to punish the traders who are indulging in anti-social activities. If at all State Trading is required, then let it be as a competitor and not as a monopolist because competition has great virtues.

One great virtue of competition is that it avoids all the evils of monopoly. If the buyer, for example, has the monopoly, then the producer suffers because the buyer exploits the producer. If the seller has the monopoly, then the consumer suffers. S.T.C. has a very great advantage of being both the monopoly buyer and the monopoly seller so that on the one hand the producer suffers and on the other the consumer suffers. Hence, if **S.T.C.** is to continue in our democratic set-up, then it should not be given the monopoly of any trade. It should be only one of the traders. It should compete on fair terms with private traders.

Moreover, if S.T.C. is to continue, then it must be advised and assisted by traders who have experience of several generations. Any number of officers cannot run S.T.C. satisfactorily because they have no business experience. They have no personal know-

ledge of running any trade as such. So, if S.T.C. is to continue, it is very necessary that it should be managed, or at any rate advised by experienced businessmen. That way, the dangers of state trading could be minimised. It would, however, be most desirable to do away with the State Trading Corporation because private traders can be trusted to do efficiently and at minimum cost to society the essential function of trading.

STATE TRADING IN INDIA

By

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A State in its simplest form is essentially an organisation for the regulation of society and administration of public affairs. When such an organisation is created by the people, of their own free will, the State is called democratic.

The ideal of democracy as enunciated by Abraham Lincoln is "Government of the people, by the people, for the people." Unfortunately, this ideal does not always exist under every Government which calls itself democratic. The group of people who assume power or whom people place in power to form the Government gradually become bureaucratic and the State does not very often represent the will of the people, but the will of the group of people forming the State. The State drifts from the principle of the will of the people to force its own will in the name of the people on the rest of the people. In many cases, it becomes a harassment of the people by the people. Democratic Government, under such conditions, loses the ideal of democracy and tends to become a form of oligarchy, and in some respects even worse. For, suppression of the people by the State under democracy becomes a collective form of suppression, which works under the cloak of the will of the people.

The main purpose which compelled people to overthrow monarchies and establish democracies was that the State shall work for the ultimate happiness of the people and not for the benefit of the State and preservation of the ruling class forming the State. The fundamental principle of a democratic State is simply to look after administration of public affairs

and the basic requirements of the people so that the people may live with joy and freedom. No Government. calling itself a People's Government can ever assume to itself the right of violating this fundamental principle of democracy. The most important duty of a democratic State is to look after health, food, housing, clothing and educational problems of the people. This means that the State should see that such conditions are created which help the people to educate themselves to obtain housing and clothing and get proper treatment in case of illness. This does not mean that the State should control or meddle with the day-to-day affairs of the people, interfere In their lives, direct their mode of living, restrict what people should eat and drink and what they would learn and not learn. The citizen must be free to consume what he likes, to spend as he thinks proper within his means, to enjoy to the fullest the fruits of his labour and live in an atmosphere of liberty and freedom, to occupy himself with any profession, to manufacture, sell and consume what he wishes.

The West German Minister for Economic Affairs, Professor Ludwig Erhard, has given an extremely appropriate analogy of the relation between the State and the people. "People," he says, "are like football players, eleven on each side, playing the game to the best of their ability, competing with each other according to rules previously fixed. The State is like the umpire in a football match. The umpire watches the game very carefully to see that it is played according to rules, but the umpire does not himself start playing football."

With this background, we should consider State Trading. We must first analyse the reasons why the State should enter the field of trading. There may be certain spheres of trade and industry, where private people would find it difficult to enter, such as industries which are of national importance, like armaments, ammunition and railways, etc. These can be, but not necessarily, taken over by the State. The

State has no right to enter the ordinary day-to-day trading in consumer goods and articles of daily requirement and raw materials and finished products of the industry. The State must see that proper facilities are available to the consumer. The State must help the people with the sole aim of making goods available cheaply and easily. If State Trading is for the purpose of collecting revenue for the State at the sacrifice of the consumer, then State Trading strikes at the very root of democracy. It becomes oppression of the people by the ruling people. It is an incursion into the activities of the people. Taking again the illustration given by Prof. Erhard, State Trading then becomes like the umpire in the football match.

The State Trading Corporation came into existence on the 18th May, 1956. The main consideration as laid down in the objectives of the State Trading Corporation were:—

1. To overcome the difficulties experienced in expanding India's foreign trade particularly with Communist countries.
2. To maintain a steady price level and equilibrium between supply and demand.
3. To arrange for imports on bulk basis to bridge gaps between supply and demand.
4. To supplement private trading.

The then Union Minister of Commerce, in his speech in the Lok Sabha, said: "We propose to examine and consider whether it is necessary to set up a State Trading Organisation in order, firstly, to facilitate the development of trade with countries where trade is in Government hands and secondly, to assist Government in solving difficulties and problems for which private trading channels are found to be inadequate."

It is interesting to examine and analyse whether it was at all necessary to establish a State Trading Corporation for the purpose of the above mentioned

objectives and also to find out whether the State Trading Corporation, during the last 5 years, has been adhering to the fulfilment of the objectives or has stepped far beyond them and why.

The first objective was to expand trade with Communist countries. The Communist countries are trading with many non-Communist countries of the world without the medium of a State-controlled Organisation. The Communist countries have no difficulty in trading with individuals. In fact, they prefer to deal direct with people rather than the State. So far as the first objective of trade with Communist countries is concerned, the State Trading Corporation was not necessary at all.

The second objective was for maintaining a steady price level and an equilibrium between supply and demand. This aim could have been easily fulfilled if ordinary trade channels would have been left to regulate the price level under the economic law of supply and demand without interference by the State. Instead of price level going down, it is steadily increasing. In fact, it has reached a very high level as shown by the living index. How this price level is maintained can be illustrated by some examples.

The Oil Refineries in Bombay were In a position to reduce the price of petrol owing to reduction in the price of imported crude oil. The State did not allow this benefit of price reduction to go to the people, but took it for swelling the State revenue. Such are the ways of maintaining price equilibrium. Several more examples of this nature can be given to show that State, through its organisation of the State Trading Corporation, is instrumental in maintaining a high cost level of all commodities and consumer goods handled by the State.

The Third objective was to arrange for imports in order to All up gaps between supply and demand. This could be easily done by individual effort of the people who have been long in this trade, more easily,

efficiently and cheaply. The State Trading Corporation has not succeeded in bringing down the gap between supply and demand and wherever it has succeeded, the price level has considerably gone up to the benefit of the State Trading Corporation with only one or two exceptions.

The fourth objective was to supplement private trade. Firstly, it was not necessary to supplement private trade, because the private trade was fully capable of expanding itself if it was free of controls imposed by the State. The State Trading Corporation, by claiming to supplement private trade, has actually entered the private trade thus encroaching upon the rights and privileges of the people.

The State Trading Corporation has lost sight of the above original objectives on which its creation was primarily based. Today, as is evident from the Estimates Committee Report, State Trading Corporation has one main objective before it, which was not mentioned anywhere in the list of objectives laid down at the time of its formation. This new undeclared objective is profit-making for the State, without any consideration of price level and the benefit to the people.

The profit which the State Trading Corporation has been making ranges from 45% up to 105% on the invested capital.

State Trading in foodstuffs is one of the main causes of the scarcity and high price level. The success which the late Mr. Rafi Ahmed Kidwai obtained in food supply position and the lowering of prices was due to his removal of every type of control on articles of food. Today, not only controls have been reimposed, but, the State has entered the trade in sugar, cereals and other commodities. Zones have been made, which create barriers to free movement of foodstuffs and produce an artificial difference in price level from zone to zone. For example, while wheat was selling In Delhi at Rs. 18 to Rs. 19 per maund,

it was selling at Rs. 27 per maund in Ghaziabad, only 12 miles from Delhi, but in a different zone. State Trading is defended by saying that it does not make any profits. This may be true, but, the cost of overhead expenses of the Corporation when added to the price of foodgrains, brings the price to a very high level. For instance. wheat is Drocured from farmers at an average of Rs. 13 per maund, but sold by the State at about Rs. 22 per maund. The difference, perhaps may be due to the overhead charges for State Trading. State Trading Corporations do exist in some other countries as well, but only for the purpose of lowering the prices, helping the citizens to obtain requirements at cheaper rates and mainly for the purpose of obtaining supplies for the exclusive use of Government departments. There is a Canadian Commercial Corporation whose turnover is of the order of 95 million dollars, equivalent to about Rs. 475 million. The total number of staff of the Canadian Corporation is 51, whereas in India the State Trading Corporation employs a staff of about 1,540 and the turnover is much less than that of the Canadian Corporation.

There is hardly any sphere of trade in which the Corporation has not entered. Among imports, there are 32 items such as chemicals, newsprint, skimmed powder milk, non-ferrous metals, graph paper, mercury, various machinery, instruments, films, generators, electric meters, cinema films, photographic materials, packing paper and cement. On the export side, all ores and minerals, mica, shoes, coffee, castor oil. cloth, lemon grass, tea, handloom products, handicrafts, coir matting, tobacco, sugar, hides and skins, etc., are all handled by the Corporation. It is thus apparent that State Trading has far exceeded its limits for which it was started and has spread its tentacles into the field of activities which belong to the citizen. There is a very appropriate saying in Gujarati language, namely, "Ja mulak ka Raja baipari wa mulak ka praja bhikari". (Where the ruler takes to trading, the subjects go abegging.)

The immediate duty of the State today is to stop the continuous rise in the cost of living. Inflation has reached a dangerous level. Living Index in India has never been higher and this completely neutralises all increase in wages, which the industry, whether in private or public sector, has given to the workers. The increase in national income which the State claims to have been made during the first and second Five Year Plans is counterbalanced by the rise in prices. This spiral of rising prices and wages must be stopped. If the State, whether directly through the departments of the State, or through the medium of the State Trading Corporation, works for lowering of prices even at a loss to the treasury, the existence of the State Trading can be justified. But, if State Trading is responsible for higher prices, as quoted examples fully prove, the State must cease to enter trading activities which belong to the domain of rights and privileges of the people.

There are very important essential functions of the Government which must be given highest priority by the State. Unfortunately, in our country, the State has not given proper consideration to the problem as to what makes a nation great. The geographical greatness of a country does not make a country great. The numerical superiority of its population does not contribute to the greatness of a nation. Even the natural resources of a country often fail to make a country rich and prosperous. Switzerland, a small country with a population of 4½ millions, without possessing any natural raw materials, is one of the most advanced countries of the world. England, a small island with a population less than that of a state in India, and not having any raw materials except. some coal and iron, has been and is still, a leading nation of the world. Japan, a volcanic country having practically no raw materials, is one of the most industrialised countries. The question arises, what then makes a nation great and the country highly prosperous and developed? The answer is quite simple. It is the people of the country who make a nation

great. The next question is what makes the people great? The answer is education. Education alone can raise the physical, moral and ethical standards of the people and give them a discipline and character so necessary for the progress and development of the nation.

The putting up of steel plants, palatial multi-storeyed buildings for Secretariats and other departments of the State, the establishment of heavy industries, gigantic dams and similar projects, cannot make a country great unless the first and foremost tasks of nation-building by means of education and social reforms are given highest priority.

Some people, or at least our State, is enamoured of the Russian methods of developing heavy industries, but our State is not paying much attention to what the Russians are doing in the direction of raising educational and social standards of the people.

Let us see what Mr. Adlai Stevenson, after his visit to U.S.S.R., said about Soviet education. "What we discovered was that education is a mighty serious business in the U.S.S.R., that learning is highly valued, that scholarship commands the highest salaries, that the hunger for knowledge is great, and that reading and self-education is a universal pastime of Russians."

No nation can develop unless every individual is properly educated to enable him to understand and shoulder his responsibility to the country and the State. In our country adult franchise has been given priority over adult education. We have placed the cart before the horse. Without universal education democracy loses its meaning.

It is indeed a tragedy that hundreds and thousands of young men are roaming about the streets in every town of India clamouring in vain for admission to schools and colleges. I know students who have to walk miles and miles in Delhi and other places to attend schools and colleges while the State is engaged in selling milk powder, cement, handloom cloth and shoes. The State is constructing palatial

buildings for each Ministry, putting up national museums, steel plants and dams, but not paying equal or rather greater attention to the opening of schools and colleges all over India.

The construction of highways between all capital towns of India, smaller roads linking village to village and bridges over rivers is another necessity, which must be given higher priority than indulging in day-to-day trade.

The State must occupy itself with the primary functions of the State. The State should discharge its duties towards the people by keeping the cost. of living as low as possible, providing means of better and cheaper housing, all faciliiies for health and above all provide means for free education, establish schools and colleges. These primary duties of the State are far more important than for the State to occupy itself with trading in shoes, skimmed milk, cement and other commodities.

The greatness of a country depends on the greatness of its people. To make India great, it is necessary that the State must devote all its energy and attention to raising the standards of the people. Only when we have succeeded in raising the social, ethical and educational standards of the people of India, our country will then be able to rank among the great, highly advanced countries of the world.

STATE TRADING IN FOODGRAINS WILL LEAD TO RATIONING

By

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There was a meeting recently in Bombay between the Managing Director of the State Trading Corporation and certain invitees, prominent businessmen and others, in which a very serious discussion took place. Suggestions were thrown that the State Trading Corporation should establish what is called Associate membership of certain traders, establish its offices all over the world in all principal commercial centres and enter the field of a large number of small commodities which are being imported but in which due to the very small extent of licences issued the margin of profits is high. The idea is that with the proflts gained by import of all these commodities, pressure exports should take place in commodities where we are out of the world market. This is the second stage of development of the activities of the State Trading Corporation.

About two months prior to this meeting there was another meeting where I was present. At that time we had turned down with a firm hand the proposal for extension of the activity of S.T.C. But a serious discussion has again taken place and one does not know to what extent the activities of S.T.C. and its tentacles will go into the economic life of our country.

This reminds us of a very fundamental truth which Moses in his ten commandments gave many centuries ago when he said "THOU SHALT NOT SHUT

UP FALSE GODS BEFORE ME." The Government Is putting up before the people such false gods or false doctrines like state trading and "socialistic pattern." Mahatma Gandhi, apart from his great contribution to our country's freedom struggle and other aspects of social life, can be looked upon as one of those persons an equal to whom the world has not produced in his approach to any problem with practical commonsense. In one of his last speeches. before his tragic demise, he stated: "To me political power is not an end but one of the means of enabling people to better their conditions in every department of life. Political power means capacity to regulate National life through National representatives. If national life becomes so perfect as to become self-regulated, no representation becomes necessary. There is then a State of enlightened anarchy. In such a State every one is his own ruler. He rules himself in such a manner that he is never a hindrance to' his neighbour. In the ideal State, therefore, there is no political power because there is no State. But the ideal is never fully realised in life."

Our Government supposedly based on the ideals of Mahatmaji is going just in the opposite direction. This is particularly so in the matter of state trading in foodgrains. We have heard the very good news sf the agreement which Shri S. K. Patil, Union Food Minister, has arrived at with the Government of the United States of America for the supply of 17 million tons of foodgrains on PL 480 basis. Actually, it means that practically 85% of this in one form or another is a gift to our country. Sixteen million tons of wheat and one million tons of rice spread over a period of four years, or roughly about 4½ million tons a year, will be received by our country. During the period immediately after the war, to a certain extent even before the war ended, and thereafter year after gear, we have had to depend upon the beneficial aid which the U.S. has given in the shape of PL 480.

I would not like in any manner to decry the importance of this deal. But the fact remains that

our country, which is predominently agricultu al and which the Prime Minister has time and again said can only be really free when we are independent In the matter of our supply of foodgrains, even after 17 years of every kind of experimentation has Not yet attained that degree of self-sufficiency in spite of the fact that we have had so many campaigns and plans for increase in food production. The problem is assuming the magnitude of a crisis because the demand for foodgrains in the country, with the rising population, is increasing from year to year. Our country produced over 73½ million tons of foodgrains last year. But in another four or five years our requirements will be over 100 million tons, an increase of about 33%.

Looked at from this angle, the total aid that the U.S. will be giving us over a period of four years appears very meagre, i.e., 4½ million tons a year, as against the additional requirement which will be nearly 25 million tons. The effort which the people and the Government will have to make in producing larger quantities of foodgrains from year to year needs to be intensified.

Another important consideration is that the availability of storage space with the Government, including all the space that they have been able to requisition, is enough to store only 1½ million tons. The intention of the Government appears to be to build 'up a buffer stock of five million tons. That means, in the next four years, we will have to increase storage facilities by 3½ million tons. The accommodation will have to be such that the grains neither deteriorate nor are eaten by rats.

I was on the Committee appointed by the late Mr. Rafi Ahmed Kidwai which went over every city in India where Government foodgrains were stored and examined over 140 or 150 godowns. In fact. we were told that two or three godowns which were rather in a bad state were suppressed from our knowledge. Since we did not have the complete list, we

could not visit them. In any case, we had to give a very scathing report of the manner in which this entire storage problem was handled. We recommended at that stage that ultimately, with the rising consumption and the need for increasing production, one important thing will have to be done by the Government, viz., to maintain buffer reserves. The buffer reserves will be necessary to equate overproduction in one year with underproduction in another year, and to prevent a collapse in the price of foodgrains.

The Government has not applied its mind to the problem of storage and if things continue in this manner we might have a big scandal. In a certain country which I visited very recently, the State Trading Corporation ordered and imported 50,000 tons of cement. They did not have the storage accommodation and after the monsoon they got 50,000 tons of stones which were not usable in any manner. We should not end up in the same situation with the wheat and rice which we are importing. It is, therefore, necessary that the warehousing problem should be taken up seriously by the Government. It is our duty as citizens to point out to the Government the urgency of this problem.

In this connection, the following points may be taken into account:

1. Ease of transport at the least possible cost taking into account percentage of imports and percentage from local purchase when prices are to be maintained in a falling market.
2. Ease of issue with the least transport cost.
3. Control on administration.
4. Availability of suitable land with siding facilities. where large Stores in the shape of Warehouses can be created.
5. Broad consideration of the pattern of rotatlon from year to year with the least possible expense and minimum duration in storage.

6. Associating an expert committee of trade in the management of these warehouses.

Very often in my discussions with Mr. S. K. Patil, he has told me that the U.S. is one of the greatest State trading countries in the world in the sense that it holds the largest single accumulation of agricultural commodities in the shape of buffer reserves and that we should aim at doing that. But in spite of this view of the Food Minister and in spite of the fact that a very senior official of the Government of India in the financial field advised openly in the National Development Council that state trading in foodgrains was a colossal mistake and that it would end up in a tragedy, the Government still persists in its illusions, When it talks in terms of removing the zonal barriers in the matter of wheat, it is still thinking in terms of zonal barriers for rice.

The idea behind this is obvious. State Trading is a means to a political end. It ensures the maintenance of a large Government machinery with lakhs of persons who can be relied upon to garner votes at elections.

The solution to our food problem lies in the sphere of greater production from year to year to meet the rising demand. Unfortunately, the Government is spending far less effort in the matter of increasing food production than in verbose speeches and statements pertaining to distribution through state trading. The idea started with a desire to build up colossal profits. In spite of the denial of the Government that it is not making any profit in foodgrains trade, there is an unexplained profit, even allowing for all the costs of the Government like handling, deterioration, inefficiency, of Rs. 150 crores a year between the purchase price of foodgrains by the Government and the price at which it is distributed by the Government. This amount of Rs. 150 crores figures neither in the budget of the Central Government nor of the state governments; nor has it been anywhere disclosed in the accounts presented before Parliament or any

State legislature. The Government owes a duty to the public to explain where this amount goes.

The Union Food Minister had stated that he would establish a Statutory Price Board and immediately he was warned by the department concerned that there were so many skeletons to hide that it would be dangerous to create a Price Control Board or Statutory Price Board. So the idea was dropped. The meddling with the price structure because of zonal barrier and the interference in the normal pattern of purchases has been such that there is no other alternative for the Department but to close its eyes to what it is doing and not to associate anybody who is in the know of things with any such measure which the Government might take.

In this context, it is important to note what two eminent gentlemen who have had occasion to study the question had to say. Dr. John Matthai, a man who started his life as a professor with socialistic ideas, but has wide and varied experience in the sphere of industry, trade, commerce, administration and finance, very near the end of his life stated:

> "I agree that there are conditions in which State enterprise is required for developing industries in India, but, I would reverse the order of emphasis and make free enterprise the normal practice. If an industry is to be nationalised, the case for it should be established beyond doubt."

Mr. Eugene Black, President of the World Bank, has observed that this policy, "if rigidly applied, could only result in imposing heavy additional burdens on the already overstrained financial and administrative resources of the public sector and in restricting the rate of development in these vitally important fields."

If in spite of all realistic considerations and wise observations of experienced men, the Government persists in state trading in foodgrains, it will only result in complete compulsory grain procurement on the one hand, and rationing on the other. It will

mean complete controls at all stages in the food sector by Government officials, interference at every stage of the citizen's life, and ultimately collectivisation of our farms. Our food problem cannot be solved in such a doctrinaire manner without losing democratic values. With all their shortcomings, only the small men—300,000 or more traders in the food-grains-trade — can handle this trade. Any disruption of this existing machinery will create a situation in the country from which it will be extremely difficult to recover.

BUREAUCRATIC HANDLING OF TRADE IS NOT SUITED TO ECONOMIC GROWTH

BY

B. M. CHOKSI

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When the State Trading Corporation came into being, although I was a business man, I kept an open mind on its role in our national economy. From my study and experience of the dealings of S.T.C., I gathered that the people in charge of the organisation were keen on implementing certain definite ideas about state trading. To implement those ideas, a few persons had enormous power in their hands and were controlling trade worth millions of rupees. With political power at their back, one could very well understand what would be their state of mind.

Only a few months ago, traders learnt with considerable alarm that the S.T.C. was planning to have more corporations because a single corporation by itself could not manage all the business. This seems to be the communist pattern. As citizens, all of us are very proud of our country and its constitution which guarantees us many fundamental rights. We should, therefore, look upon with apprehension any introduction of undemocratic techniques in the administration. Therefore, this move to introduce the communist pattern of economy should be opposed by the public.

At the Ooty seminar of the A.I.C.C. in 1959, there was loud thinking on the Third Plan. It was said that the country should be governed in such a manner that the people should know that they are in a socialist state. With that view in end, S.T.C. was to be

made one of the instruments of state action. Through this organisation, hundreds of crores of rupees could be amassed by the State and by the end of Third Plan, most of the trade would be handled by S.T.C.

The notion that S.T.C. has some magician's wand arises out of ignorance of the mechanics of trade and commerce. It takes generations to understand and build up a trade. Business means worries and sleepless nights. It means constant alertness and foresight. These are things which cannot be learnt by people sitting in air-conditioned chambers. Moreover, the officials are impervious to the fact that they may be making losses instead of profits. Under such conditions trading is not possible.

S.T.C. did not step into the paper trade for some time. And, therefore, people in the paper trade thought that they were rather lucky. But two years ago S.T.C. announced that it would go into the newsprint trade. It was warned by people in the know that the paper trade was not an easy one. After some time the policy with regard to trade in newsprint had to be revised.

Later on, it was proposed by S.T.C. to have a corporation of paper traders. About 400 members — most of them importers — were to form the Corporation. After showing the Memorandum and Articles of Association to S.T.C., as per S.T.C.'s suggestion, the Corporation was duly incorporated. It took more than one year for the Corporation to get some business from S.T.C. It is a matter of regret that while the Corporation started at the suggestion of S.T.C. was starved of business, a few private parties were favoured by S.T.C.

Traders in other lines also have come across similar experience. Some friends in the cement export business told me that they had once made their own arrangements for steamers; S.T.C. ignored those arrangements, but later on hired those very ships at higher rates.

Interference of S.T.C. did not stop with newsprint. It ordered from East Germany paper worth about Rs. 8 lakhs. When we in the paper trade protested against this, an assurance was given by the authorities in Delhi that the paper would be used for governmental purposes. In reality, however, it was sold to the so-called actual users. Surprisingly, the sale was made through a private party which was officially permitted to sell the paper at a much higher rate than the 5% offered by the Paper Traders' Association, Bombay. After a few months, we came to know that S.T.C. again ordered tissue paper in large quantities. When we inquired of them the details of the deal, we got a curious reply from an officer who referred us to the Director of Industries. When this was brought to the attention of the Managing Director of S.T.C., he regretted that such an unbusinesslike and irrelevant reply had been given and assured that the question of giving distribution to the association would be considered. Then, all of a sudden, S.T.C. arranged distribution through a few parties and permitted them to sell at Rs. 12/- the goods costing Rs. 7/-. On this matter, we entered into correspondence with S.T.C. At first we got one reply. Later on we got another reply. The third time, we got some other reply. This is the way, affairs of a state undertaking are being carried on.

In this state of affairs, it is necessary to appreciate and reiterate the role of traders in our national development. Unfortunately, politicians of leftist persuasion have made it a part of their New Religion of socialism to decry and attack the trading community. If a proper study is made of all the charges made against the traders, then one will come to the conclusion that most of the criticism of the politicians is rooted in their ignorance. The learning of abstract theories which have no relevance to economic realities, envy at the prosperity of the merchants and lack of business experience are some of the factors

which induce such an unhelpful attitude on the part of politicians.

Unless there is proper appreciation of the place of tfaders in developing the economy and in providing an essential service to the community, the country cannot make much progress. If there is resort to increased state trading, then it will lead to State Capitalism and ultimately ruin of the economy. It will promote a bureaucracy which will destroy both individual freedom and democracy.

STATE TRADING – AN UNMITIGATED TALE OF BUNGLING & INEFFICIENCY

By

R. V. MURTHY

Let us approach the problem of State Trading in an objective way as students of economics. First of all, the origin of the State Trading Corporation deserves to be studied. When the S.T.C. was set up, it was said that, because, in the communist countries, there were no counterparts of the trading community, it would be advisable for us to have a separate organisation for the purpose of trading with those countries. But the S.T.C. has not stopped at trading with communist countries only. It was also claimed, at the time, that State Trading was intended to prevent shortages, price upheavals, blackmarketing, and unfair competition. In order to see how far these good intentions have been fulfilled in the event, we need not go into an examination of all the commodities the S.T.C. handles — it now deals with more than 50 items. Let us take only two commodities, one a commodity of internal distribution, and another a commodity of export, namely, cement and manganese ore.

Cement perhaps provides the clearest idea of the extent of bungling that the S.T.C. is responsible for. The Government frowns upon unearned income in other spheres of economic activity. There is hardly any other instance of unearned income which is of such a magnitude as that earned by the S.T.C. in respect of its cement dealings. Without as much as even seeing, let alone handling, a single bag of cement, the S.T.C. has been pocketing the maximum amount

of profits conceivable! A surprising feature of the State Trading in cement is that, even in official circles, there is no unanimity as to the precise break-up of the s'elling prices of cement. Only recently, two Governmental agencies have given two different sets of figures relating to the price of cement. Giving information on the floor of the House with regard to the average ex-works price, the Minister concerned, wittingly or unwittingly, inflated the ex-works price of cement, presumably to make it appear that the margin of profit available to the S.T.C. is very low. He quoted the ex-works price as Rs. 58-10, whereas, according to the Report of the Estimates Committee, it is only 56-50. With regard to packing charges. it is Rs. 13-50, as stated in the Lok Sabha by the Minister, but, according to the Estimates Committee's Report, it is only Rs. 11/-. The average freight. according to the statement made by the Minister, is Rs. 18/-, but it is Rs. 15.50 as per the report of the E.C. Now, what is the effect of this? To the extent that prices are lower as mentioned in the E. C. Report, the margin of profit available to the S.T.C., according to official admission itself, is higher. Surely the public has a right to demand of the Government an explanation for giving to it two different sets of figures thus.

With regard to manganese ore, an important commodity of export, again, the S.T.C. has perpetrated so much bungling that there is hardly any one in the country who does not know about it. But there are some instances of the manganese ore export fiasco with which many people may not be familiar. Some time ago, a deal was entered into by the S.T.C. The S.T.C. had negotiated with a party in the U.S. and informed it to come and pick up the ore from a given port. First of all, the S.T.C. had indicated Visakhapatnam as the port of call. But, by the time the steamer could call there, a cable had been sent asking the steamer not to call at Visakhapatnam but at Bombay. This was only to gain time to collect the manganese ore which the S.T.C. had not yet done until then. Even by the time the steamer came to

Bombay, the ore had not yet been collected by the S.T.C. and to cover the delay, all manner of tactics were employed by it to prevent the ship from getting a berth promptly. One of the fantastic pleas put forward by the S.T.C. to explain the delay was to allege that there was no water for the locomotives of the Bombay Port Trust to bring the cargo from the railhead to the port! It was also solemnly urged that food ships had to be given priority. But even after all these delaying tactics, was the S.T.C. in a position to load the goods when the steamer actually entered Bombay? No. One can easily calculate the amount of money required to defray a ship's expenses if loading is delayed indefinitely thus. This incident is enough to establish the gross inefficiency of the S.T.C., or at any rate of the people concerned with this particular manganese deal. The result of it all was that the export of manganese ore suffered a severe setback. In trying to explain away the sharp drop in manganese exports from India, the S.T.C. offered certain explanations. Even the Estimates Committee was not convinced with these explanations. If it is a fact, as alleged by the S.T.C., that the decline in India's manganese ore exports to the U.S. was due to factors outlined by the S.T.C., such as, for instance, the steel strike in America, it must follow that a corresponding percentage decline should also have taken place in manganese exports from the other countries to the U.S. The fact, however, is that these other exporting countries were not only able to maintain their exports to the U.S. but some even improved upon their previous performances. Again, as the Estimates Committee has stated, if the total decline in the world's trade is of a certain magnitude, then the decline in India's exports of manganese ore also should be **pro rata**. But, as against a world trade decline of about 24%, India's exports declined by almost 50%! The blame for it all must be placed mainly, if not solely, at the doors of the S.T.C.

Yet another aspect of manganese ore exports requires to be carefully considered here. The State

Trading Corporation, it is known, has been entering into a series of barter deals. How far these are beneficial to the country is a matter of opinion. Be that, as it may, if the S.T.C. barter deals are encouraged, there is no reason why barter deals, arranged by private traders and established beyond doubt to be for the good of the country, should not receive similar encouragement. In one instance in which private traders of this country dealing in manganese ore exports entered into contracts with. a party in the U. S. not only for selling our manganese ore, but also for importing, in return, a commodity like ferro-manganese which our country is so badly in need of, authorities told the exporters to cable to the party concerned in America to wait for some time. The Indian exporters conveyed this request to America and the party there agreed to and actually waited for more than two weeks. Thereafter, the U.S. party naturally pressed the Indian exporters to finalise the deal, and the exporters, in their turn, sought permission again of the Government to go ahead with the deal. For a second time, the authorities asked them to postpone conclusion of the deal, this time for one more month. As may be inferred, the deal did not go through because of this most unbusinesslike handling of the situation. This brings out clearly the absolute immaturity of the officials concerned, or rather their misplaced concern for the S.T.C. Anybody with a little common sense understands that the international market, where competition is so keen, will not stop for one's convenience. Prices fluctuate in the world market, depending upon the supply and the demand factors at a given time. If one does not want to take advantage of a situation that is favourable, one simply loses the opportunity. At a time when our country needs foreign exchange so desperately, if the authorities wantonly allow opportunities for export to slip by thus, the officials concerned certainly require to be dealt with suitably.

. The public has been fed time and again on the thesis that one of the objectives of the Government is to provide opportunities for more employment. Yet another objective of the Government, especially in promoting the State Trading Corporation, we are told, is the desire to eliminate middlemen. If these are the objectives one is entitled to ask the Government for information as to the number of traders it is responsible for displacing as a result of the steady expansion of the activities of the S.T.C. Every day, the S.T.C. has been displacing from the ranks of the trading community employed people, people who have been engaged in trading for generations. Will the S.T.C. provide them with alternative employment? Then, again, the S.T.C. offers the most appropriate example to illustrate Parkinson's law in action. There has been an incredibly sharp increase in the personnel of the S.T.C. One has only to compare the number of persons employed in the Canadian Commercial Corporation (the Canadian counterpart of the S.T.C.) with the people employed in the S.T.C. to get some idea of the wide disparity.

A little digression here to point out the dangers of bilateral trade, especially with the communist countries. It may suit the communist countries now to enter into these treaties. After all, it is considerations of political strategy that make them trade with our country today. The moment it does not suit or please them, they will suddenly terminate importing from our country. Meanwhile, our traditional customers would have been lost to us. In other words, in our zeal for cultivating new fair weather customers, who, for political reasons, would not hesitate to change their policy any time, we may be unconsciously running the risk of allowing our export trade to be left in the lurch. Herein lies the danger of going too much after bilateral agreements with the communist countries. We should go in for these only to the minimum extent necessary.

Someone has aptly remarked: once the tiger tastes human blood, it will never give up the habit. Simi-

larly, the S.T.C. has tasted profits without efforts, as for example in cement distribution. It has been having profits without effort, enterprise, initiative or imagination, because, fortunately for it, backed as it has been by the State, people in the trade are obliged — often even coerced — to work for it. By enlisting the services of these people as "Associates" of the S.T.C., in return for quotas, the S.T.C. is piling up undeserved profits. The trade must not be a privy thus to let the S.T.C. spread its tentacles further, because it is not going to be helpful either to the trade or to the country. It is not going to augment the foreign exchange earnings of the country. When there is a world crisis, it is established trade which has worldwide contacts that can stand by the country and not any bureaucratic organisation like the S.T.C.

In fine, the entry of the State into the field of trade has been perhaps the most unfortunate event in the recent economic history of India. As the Estimates Committee Report on the S.T.C. operations has rightly suggested, therefore, a stage has already been reached when it is imperative to make a clear declaration of policies in regard to the functions and activities of the S.T.C. in the light of the experience gained so far.

The views expressed in this booklet do not necessarily represent 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

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