

PAPER LAID ON THE TABLE

THE FRUIT PRODUCTS ORDER, 1955

THE MINISTER FOR AGRICULTURE (DR. P. S. DESHMUKH): I beg to lay on the Table, under sub-section (6) of section 3 of the Essential Commodities Act, 1955, a copy of the Fruit Products Order, 1955, published under the Ministry of Food and Agriculture Notification, S.R.O. No. 1052, dated, the 3rd May 1955. [Placed in Library. See No. S-337/55.]

SHRI JASPAT ROY KAPOOR: May I say a word in this connection? This Order is dated the 3rd May 1955. May we know what is the reason for its being placed on the Table of the House, so long after it was published; because section 3 of the Act says that it should be placed as soon as possible, after the Order is made? May we know the reason, why it has been placed so late?

DR. P. S. DESHMUKH: I am afraid, Sir, I could not give any reason, but I do not think any serious inconvenience has been caused.

SHRI JASPAT ROY KAPOOR: One more thing, Sir. May we know whether the Fruit Advisory Committee has been already appointed or not?

MR. CHAIRMAN: You cannot discuss the whole question. You asked about the delay. The delay is due to the fact that it was authenticated later, I am told by Dr. Deshmukh.

SHRI JASPAT ROY KAPOOR: I am not discussing this. I was only anxious to know it as we have no other opportunity to know it. It has been placed so late and we cannot discuss it in this session as there is no time. It will come up for discussion only in the next session. In the meantime I simply wanted to know whether that body has been appointed.

MR. CHAIRMAN: You may put a question on it later.

THE COMPANIES BILL, 1955—
continued.

SHRI KISHEN CHAND (Hyderabad): Mr. Chairman, I now come to the question of remuneration of managing agents. It has been stated in this Bill that the overall remuneration will be 11 per cent. of the net profits while that paid to the managing agent will be ordinarily 10 per cent. of the net profits subject to a minimum of Rs. 50,000, that is, in case the profits of the company are not sufficient then any amount upto Rs. 50,000 can be paid as remuneration to the managing agent. When the hon. Minister.....

SHRI V. K. DHAGE (Hyderabad): Even if there be a loss?

SHRI KISHEN CHAND: Yes. When the hon. Finance Minister was piloting this Bill in the Lok Sabha, he took the example of a company with a capital of Rs. 20 lakhs and he said that if that company of Rs. 20 lakhs made a profit of Rs. 2 lakhs, then 10 per cent. of it will be Rs. 20,000. I should like to know from the hon. the Finance Minister whether in such a case the company can come round and say that the profit was insufficient and that instead of Rs. 20,000, it should be paid Rs. 50,000.

Then, Sir, in the very beginning I have pointed out that there are 30,000 companies with a paid-up capital of about Rs. 950 crores and that the average capital structure of a joint stock company in our country is about Rs. 2 lakhs.

SHRI V. K. DHAGE: Rs. 3 lakhs.

SHRI KISHEN CHAND: Rs. 3 lakhs is the average but a large number of companies will have their capital round about Rs. 2 lakhs. There are a few companies which have got a capital of a crore of rupees. To compensate for that extra capital, it is probable that a large number of companies have a capital of Rs. 2 lakhs. Now in the case of a company with a capital of Rs. 2 lakhs does the

hon. the Finance Minister think that the managing agents can come round and say that the profit is insufficient and ask for any suitable remuneration, right upto Rs. 50,000? I submit, Sir, that the wording of this clause is defective; the hon. Finance Minister should have taken into account the total capital of the company and he should have said that, normally, we do not expect a profit in excess of 10 per cent. because out of that 10 per cent., income-tax has to be paid and out of that the shareholders will get about 5 or 6 per cent. dividend on their capital. So, if he has accepted that supposition that the possible profit of a company will be 10 per cent., and if the managing agents are going to get 10 per cent. of the net profits, it means 1 per cent. of the original capital, I maintain that in the Companies Bill there should have been a clear provision that it should be 1 per cent. of the capital or Rs. 50,000 whichever is less. If there was this provision of 1 per cent. or Rs. 50,000, whichever is less, we would have safeguarded that in the case of small companies the burden of payment to managing agents is not excessive, while in the case of very large companies with, say, a capital of Rs. 5 crores, I suppose, Rs. 50,000 will be a reasonable amount. And further, certain concession has been given, that this remuneration can be increased after referring it to the Central Government. I submit, Sir, that that provision should not exist, that it should be a definite and final decision that the remuneration to the managing agents should not exceed 10 per cent. of the net profits. In my humble opinion, this 10 per cent. is excessive, but even if we assume that 10 per cent. is to be given, in case the company has not made sufficient profit, the managing agent should not be entitled to get more than 1 per cent. of the share capital or Rs. 50,000 whichever is less.

Then, Sir, I come to the point that the difference between 11 per cent. and 10 per cent. is too small. Besides the managing agents it is possible

that the directors may be paid a monthly salary. If we accept the figure of 11 per cent. for the overall payment to all the directors and the managing agents besides the sitting fee paid to the directors, I submit that the remuneration to the managing agent should not have exceeded $7\frac{1}{2}$ per cent. so that the margin between the overall expenditure and the remuneration to the managing agents was sufficient to cover the other expenditure.

Now, Sir, I come to another point. And that is regarding payment by companies to charity. I think it is a very good idea that the companies should contribute something out of their profits to charity, but in the clause it is stated, 'charities and other funds'. The moment we introduce the words 'other funds' there is a great deal of loophole that instead of money being given to charities it will be given to 'other funds'. You know, Sir, that in England titles were sold and money was contributed to party funds. I am afraid that under the garb of charities and other funds, the companies will be forced and persuaded to contribute to party funds. I do not want to use strong words but it has been found that this practice has been considerably abused in every foreign democratic country and it has now been discontinued, at least in the case of U.K. There, titles are no longer sold for payment to party funds. When it has been stopped in U.K., we are introducing it in our country. I submit that we should really define 'charities' and we should be very specific and particular to see that the companies are not directly or indirectly forced to contribute to party funds. I say it in particular, because the powers of the Government have been enhanced very greatly in this Bill. The whole Bill from beginning to end is a story of control by the Government. Sir, I believe in decentralisation and I find that in this Bill, the control by the Government is excessive. There is going to be an advisory commission; there are going to be inspectors. You know,

[Shri Kishen Chand.]

Sir, that there are 30,000 companies and if 30,000 companies are going to be controlled by the Government you can imagine the number of inspectors and the number of advisers, commissioners and all other officers who would be required for the purpose. Sir, this will be another source of corruption in our political life. We are really, in our laws, introducing too much interference by the Government.

Yesterday, I had submitted certain alterations in the voting rights of shareholders and in the matter of election of directors. If those alterations are accepted and adopted, then the companies will in a way be better controlled by the shareholders themselves. I think the companies should be really controlled by the shareholders and not by Government. If any abuse is practised, it is for the shareholders to point out those mistakes and abuses, go to a law court and fight it out there. It is only in our country that we have such a comprehensive Companies Bill with all these clauses for controlling the companies. If you see the Companies Act in U.K., it has not even half the number of clauses. It is a much simpler measure because they believe that after all it is the shareholders who have invested their money in the companies and it is the directors who are managing and who should be held responsible. There are law courts and there is the law of the land. If there is an abuse of power it should be set right by a reference to the law courts. Why do we want the Government to come in in every case, make enquiries and do the needful? Their inspectors will come and the result will be that these inspectors will just ask for some remuneration from the companies and they will be satisfied and they will keep quiet. We are really increasing corruption by giving these extra powers to Government for supervision of the companies. So I will submit that the word 'charities' should be defined definitely.

Then in that clause there is mention of 5 per cent. or Rs. 25,000 whichever is more. Here also, I submit that in the case of small companies whose capital is only Rs. 2 lakhs, the amount is too much. How do you expect them to pay Rs. 25,000 or anywhere near that amount?

SHRI SHRIYANS PRASAD JAIN (Bombay): It is not compulsory; it is optional.

SHRI KISHEN CHAND: I know that, but with all these inspectors going about and bringing pressure to bear on the companies and with all the loopholes for prosecution, it is possible that the companies—they may not give Rs. 25,000—will have to give at least Rs. 5,000 and I submit that even Rs. 5,000 for a company which has a total paid-up capital of Rs. 2 lakhs is much too excessive. Therefore, I will say that this clause should be reworded. They should not be made to give more than five per cent. of the net profits in any case. There should be no amount stated and there should be no option to the effect, 'whichever is greater'. I submit that the maximum figure that should be allowed to be paid to charities should be five per cent. of the profits, or if the House thinks it better, it may even be ten per cent. But if you say 10 per cent. or Rs. 25,000 whichever is more, there is the possibility of abuse and of undue pressure being brought to bear on the companies.

Then, Sir, I come to the new clause relating to secretaries and treasurers. I think these secretaries and treasurers are really the employees of the company and they should be undoubtedly under the control of the Board of Directors. They should not have any powers which cannot be controlled by the Board of Directors. The remuneration to be paid to them is $7\frac{1}{2}$ per cent. of the net profits, and I submit that this is too excessive. It should be only five per cent. of the net profits or half a per cent. of the paid-up capital of the company. If you impose that restriction, you can

really safeguard the interests of the shareholders. There are so many other clauses about secretaries and treasurers but I will deal with them when we are considering the amendments.

Sir, there are two more points and I will finish. There is the question of Government companies. This is also a new clause and the definition is that any company in which the shareholding of the Government is 51 per cent. or more is a Government company. I come from Hyderabad where this method was tried. A large number of companies were floated with 51 per cent. share capital by the Government and I may tell you, Sir, that their story is a sad one. Almost all the companies closed down. This dual arrangement of having 51 per cent. Government capital and 49 per cent. public capital does not work. And if you are going to alter the voting rights of the shareholders, 51 per cent. share-holding by the Government will not automatically give them a superior voting strength in comparison to the other shareholders, and if they do not have any superior voting rights, they will not be able to control the management of the company. Therefore, I submit that the Government should not really enter into this type of composite companies. If the Government thinks that a particular industry is an important industry, it should be nationalised. I believe in nationalised industries and that is our aim and objective as far as big and key industries are concerned. Therefore, progressively, we should try to nationalise the industries. The moment we enter into this type of compromise with private enterprise when they are allowed to have 49 per cent. shares and the Government keeps to itself 51 per cent. shares, it will mean that all the facilities of the Government are provided to the particular company and the shareholders of that company are guaranteed their dividends and profits. Therefore, I maintain that the whole

clause relating to Government companies should be redrafted. There should be no companies with 51 per cent. Government capital and 49 per cent. public capital. Any company over which the Government feels that it should have control should be nationalised.

As it is, there is a clamour from the public that the private sector is being neglected. The private sector is not getting enough facilities for funds. If the private sector is not getting enough facilities for funds, then let the Government start its own factories. If they have any funds, available, let them start their own companies.

Sir, I will once more say that the control and management by the Government envisaged here amounts to excessive interference by the Government. I pointed out yesterday that the hon. Finance Minister did not consult his statistical experts and he has misled the House and other people by saying that 1,720 companies are managed by 1,345 managing agents, while the total number of companies is 30,000. He will be advised by his statistical experts that to draw any conclusion on that basis and introduce any clause in the Bill on the basis of the inferences drawn from it is incorrect.

I would end by saying that this big Bill is full of so many contradictory clauses that when it is worked, it will be found that the Government interference is too excessive and that it will not lead to the proper growth of companies. I would humbly submit that it needs a good deal of amendments and I hope that the hon. Finance Minister will gladly accept the amendments if they are moved.

MR. CHAIRMAN: You will have to sit through the lunch hour and till six o'clock. Mr. Parikh.

SHRI C. P. PARIKH (Bombay): Mr. Chairman, first of all I would like to congratulate the hon. Finance Minister, his colleagues and his principal advisers as well as the

[Shri C. P. Parikh.]

Members of the Joint Select Committee who have spent their labours on this Bill for over eleven months.

[MR. DEPUTY CHAIRMAN in the Chair.]

I will also congratulate the Finance Minister for having reconciled the many conflicting views and representations that were made to him and I think that the Bill that has emerged out of the Select Committee is a measure which requires to be approved. First of all, the whole Bill is meant in a way to be a complete replacement of all the very vital clauses of the present Companies Act. And I say, Sir, that the whole Bill is designed with a view to checking malpractices and abuses that prevailed in the past and the industrial growth also is kept in mind, so that no restrictions of a nature which will retard the progress of the country will be operating. From that viewpoint this Bill is very welcome.

Now, I will refer to the criticisms which were made about some of the provisions in this Bill. Some Members spoke yesterday that the managing agency system should be abolished forthwith, or by 1960. And they advanced various arguments for that and went into the historical background of the managing agency system and enumerated so many abuses that occurred in the past. Government is quite alive to this factor. In 1951, when they assumed powers, they made some amendments and also appointed the Bhabha Committee. The Bhabha Committee's recommendations are now before us and this present Bill is based on the recommendations of that Committee because all factual data was collected by them and on that basis this Bill is framed. The Joint Select Committee have also made many changes according to the demands of the times and the economy that we want to have in this country. According to those, many other changes of a beneficial nature for the economy of the country, as well as

the social and economic structure that should prevail in the country, have been incorporated in this Bill. Now, Sir, the opponents of the managing agency system have only gone into the background of its past history. In the last decade, from 1939 to 1950, we were passing through war conditions and post-war conditions, and conditions of shortage were there. Not only that, the British Government was ruling us. I mean, the foreign interests were there, till 1947, assuming the whole political power of the country, and these abuses and malpractices occurred during that period, on account of the Government's *laissez faire* policy. In other words, Government did not interfere in the way in which they should have interfered looking to the conditions of the country. And they wanted to set one interest against the other and also pamper one capitalist class, in order that they may be put against the political parties. With this idea, I think, there was laxity in enforcement of many of the provisions. Many other provisions and amendments which they could have brought forward, they did not bring forward. Therefore, the fault does not lie with the present Government. The present Government, well conscious of it, is coming with this Bill and I say that if those who are the advocates of the abolition of the managing agency system study in the proper perspective the managing agency system that will now come under this Bill, they will find that it will be something different from the managing agency system that was prevailing till now. And I will go further even to say that it will be entirely different from the managing agency system which we are having at present. And that is, in the matter of remuneration, in the matter of powers, in the matter of independence of the board and in the matter of oppression and mismanagement by the managing agents, all these provisions are there. Therefore, the Bill presents quite a different picture of the managing agency system. I quite agree that the All India Congress Committee in 1947, as

some hon. Members mentioned, preferred the abolition of the managing agency system. That principle is still there. The managing agency system in the form in which it existed then would be abolished. It has been purged of many of its evils at present. The abolition or replacement has to be done by stages and this is one of the stages that is put forward. Hon. Members have already forgotten that, by 1960, all the managing agency agreements will terminate. Therefore, it is practically abolition of the system on that date, unless Government approves on its own terms, as stated by the Finance Minister in the other House. If it is thought desirable that we cannot have any other better system in the country, then the managing agency system will be continued. Further, during this period, any variation in the managing agency agreement, any appointment or reappointment—all these factors—will require the consent and approval of Government. Therefore, Government, even during this period of five years, are having the reins of the managing agency system.

Now, Sir, those who are advocates of the abolition of the managing agency system must understand how the companies are governed in this country and what the form and system of management in the country is. How are companies managed? There are public limited companies and private limited companies. The private limited companies are 17,000 in the country. The public limited companies are 12,000. Therefore, the industrial structure, or the capital which is largely invested, is more or less invested in the public limited companies. I say, for that my hon. friends may refer to Volume I, Statements I and II of the Taxation Enquiry Commission's Report, in which all the particulars of the companies' formation, their paid-up capital and their activities—manufacturing and non-manufacturing—are given. Sir, out of 12,000 public limited companies, 4,900 or roughly

5,000 are in the manufacturing sector. And out of that 800 companies have a bigger capital, requiring resources of a larger nature to carry on their industrial activity. About 4,100 companies are of a non-manufacturing nature—commercial or trading type. Therefore, it will be easily understood that this Act, in its rigours on the managing agency system, is applicable to public limited companies, to manufacturing concerns with a higher capital, which are only about 800.

Now, Sir, the private limited companies are 17,000, of which the active companies, and excluding the foreign companies and associations, are 12,000. Out of this 3,900 companies are in the manufacturing sector, of which 150 are big. The others are very small. Therefore, if we look at this picture, we are dealing with about 800 to 1,200 companies, public or private limited companies, which have a bigger capital, bigger resources. Now, Sir, the statement has been made by the Finance Minister that 1,720 companies are there which are managed by managing agents. Now, the numbers of managing agents are also given in the Taxation Enquiry Commission's Report.....

THE MINISTER FOR FINANCE (SHRI C. D. DESHMUKH): That statement that all these companies are only companies which are managed by managing agents, was never made.

SHRI C. P. PARIKH: I was referring to the 1,720 public limited companies which are managed by managing agents, and that has been circulated to us.....

SHRI C. D. DESHMUKH: The statement contains particulars about 1,720 companies most of whom have replied to enquiries, but not all of them are necessarily managed by managing agents.

SHRI KISHEN CHAND: Are there other companies managed by managing agents besides these 1,720?

SHRI C. D. DESHMUKH: Yes. They account only for perhaps about one-third of the total paid-up capital or one-fourth.

SHRI H. C. DASAPPA (Mysore): 1,720 managed by 1,340 managing agents. This is on page 25 of this printed brochure of Finance Minister's speech delivered in the Lok Sabha.

SHRI BHUPESH GUPTA (West Bengal): I have got another note. This also says the number of companies managed by managing agents is 1,720.

SHRI C. P. PARIKH: I do not go into that. My point is different.

In the Taxation Enquiry Commission Report, it is very clearly given in Statements 2 and 3. There are 1,720 companies which are managed by managing agents. Managing agency companies which are private limited are 770 and managing agency companies which are public limited are 152. So, the total is 922. The hon. Finance Minister has also given figures that 84 companies are having management of more than one company, 26 companies two, 36 companies from 3 to 5, 26 companies from 5 to 10, six companies from 10 to 20, two companies from 20 to 30 and one company from 30 to 40. So adding these, the total number of companies which will be limited by the managing agents will be about 1,300. Whatever it be, I am not going into the figures. The problem is centred over the control and supervision of about 800 to 1,200 companies managed by managing agents and a large number of capital is invested in these companies in the manufacturing sector, because the manufacturing sector requires larger resources.

Now, I will come to managing agency and to those members who are advocates of the abolition of managing agency system. The management of a company can be carried on by managing agents or managing directors. The managing agent or the managing director

controls the companies, or it is controlled by the director-in-charge or manager or a secretary, by whatever name they are called, which implies that everybody who is appointed under these designations is more or less working on a part time or a full time basis.

In the managing agency companies, which are more or less, as I said, public limited companies or private limited companies, there are some persons who are not taking active share in the management because they are corporate bodies. The shareholders of the corporate body appoint certain persons who are in charge of management of companies. Over and above this, there are workers. The firms are getting converted into private limited companies owing to the present system of Income-tax and Super Tax. Therefore, you must concentrate on the management. The corporate sector is formed by certain individuals who have joined hands together in providing finance and technical skill and managing ability. Therefore, when large finances are required in a concern, somebody will have to provide them for the working capital as well as for the expansion of fixed assets. The shareholders—the public—who are contributing the share capital are not called upon to bear their burden by providing the finances and they appoint such managing agents in whom they have confidence that the company's affairs will be conducted in a proper manner and that finance will not suffer. These financiers have no technical skill, I can admit. As Mr. Kishen Chand said, although some of them possess this, it is not a general rule. I will just point out to him that after the War, there has been a feeling in the country that if the managing agents want to manage their companies, they shall have also to give their staff technical training and that necessity is being realised by the managing agents at present. I am not exaggerating when I say that 20 to 25 per cent. of the managing agents' sons, relatives or friends are being given technical training in India and in foreign coun-

tries and they are put in charge of the concerns. But technical knowledge or degrees do not completely come in management, unless it is accompanied by experience. And experience is a great thing. I know of persons who have no great education or no special university degree; but they have been very successful in the management of their companies and they have promoted the industrial structure of the country in the way we should have. On account of their experience and ability they have been able to manage their concerns well. It is not only finance that is required, but also technical knowledge in managing a concern, and technical managers have to be employed. These managing agents should select the right type of personnel and treat them well. The managements which have been successful in the country are in hand and glove with their technicians and workers. I know that a big manager in a good company is always discussing the problems with his technicians and workers for more than two or three hours and he relies more on their advice. He gives them importance and status, so that these technicians are all working like a family team and the concerns are prosperous. I do not say that this is a generality, because generality is quite different; otherwise, all the companies in India will earn more. But I will come to that later.

Only 800 to 1,000 companies are working with profits over 5 lakhs of rupees according to the Central Board of Revenue statistics. Only 775 are making assessable profit of five lakhs of rupees and over. So, out of the thirty thousand companies.....

SHRI BHUPESH GUPTA: Hidden profits?

SHRI C. P. PARIKH: Assessable profit. I think I will give....

SHRI M. GOVINDA REDDY: (Mysore): It is for you to discover.

SHRI G. RANGA (Andhra): We are unable to do

SHRI C. P. PARIKH: Now, 775 companies only are working at a profit of more than 5 lakhs of rupees, out of thirty thousand companies in the country. Therefore, the problem has to be viewed that where big concerns are concerned, we are proud of the industrial development that we have achieved. But we are proud of it because there was no industrial development of any significance in the past. Our industrial development will be considered very tiny, very insignificant, when we consider the industrial development that we desire, when we compare ours with that of foreign countries. I make this remark because we are organizing and hope to become one of the biggest industrial nations not only in Asia, but in the whole world. With that idea, everybody in India should husband all his energies in order to make this country's progress successful and speedy. Therefore, we have to look at this managing agency system that it is going into another activity which should not be forgotten and that is the pioneering the promotional and the exploratory nature of work before a company is started, because companies are not started immediately by talking. Pioneering, and promotional work have to be undertaken and for that money has to be spent. All the pioneering and all the promotional work will not bear fruit and capital on the venture will be lost. Therefore, certain financiers will have to take these risks in bringing forward schemes in order to expand the industries. These schemes cannot be put forward unless certain persons undertake this activity and that activity is undertaken by those who are called managing agents.

Next comes the question of capital. This is the difficulty. Nobody has adequate capital for the concern which he wants to float and nobody also wants to put all his capital in that concern, because he wants to divide risks and they can be avoided only by sharing with others.

I will tell you one instance. If certain persons float a company, the

[Shri C. P. Parikh.]
capital will be found, because the shareholders may have confidence in them. Not only this, but it is over-subscribed. And there shares are quoted at a premium of 25 per cent, immediately the subscription is closed. The public have confidence in them; they over-subscribe to the formation of this capital. They have confidence that the board of directors, the managers or the managing agents are competent persons to deal with the affairs of the company and that the company will prosper. This will not happen with all the people because they know that this board of directors will provide the necessary technical personnel by borrowing, by hiring or by paying adequately on any terms and for a period the technical skill that is required for that concern. They have confidence in the board of directors that they will provide excess capital which is required for running the concern as well as for expanding it. On that account then, capital is over-subscribed.

Mr. Kishen Chand said yesterday that it is easy to form capital and that some persons can do it. I say that he should not forget that even one person can do it, if he enjoys the confidence of the public; even 100 persons will not be able to do that, if they do not enjoy public confidence. What I am pointing out is that this managerial talent or managerial ability leads to the confidence that is placed in them by the public. That confidence comes on account of the past experience, the ability and the financial capabilities of those persons.

Now, Sir, I come to another form of management—director control or where there are managing directors. It is a sort of personal management. In the case of limited companies, I will call it 'impersonal' management because all persons are not active in the management. In the director-control system the Secretary, director or director-in-charge are working part-time or whole-time at the pleasure and according to the control of the board of directors. Their appoint-

ment or dismissal depends on the board of directors, who judge them by their ability. They have executed an agreement for one or five years whatever is necessary. If the managing director is not suited for the task given to him, his appointment no longer stands. The board of directors give all instructions. Therefore, that is a personal arrangement. Then, the managing director or director-in-charge is not in a responsible position and cannot provide finances necessary for the company. A management may have technical skill and the necessary things but, in the absence of finances, its growth is in a dubious state. Therefore, managing director system is not spreading in our country to the extent that we desire because enough capital is not forthcoming in this country. The conditions in our country are quite different from those in other countries like the U.S.A. and the U.K., which have got issue-houses and investment syndicates. They can under-write the capital and the shares. The under-writing houses have even under-written capital of one crore odd. Then there are banking facilities in those countries to a degree which we do not possess at present excepting through these financiers, viz., the managing agents.

As regards the financial aspect of running a concern, I think, Sir, we require some financial control in management by those who want to run these concerns in order that the concern does not starve for want of capital. We are wedded to the private sector and mixed economy. We are living in democracy where private possession has some value. Our people hold silver, gold and other precious metals. Sir, it is much better that entrepreneurs with experience convert their gold, silver and other precious metal into iron and steel for productive purposes. If sufficient inducement and incentive is given, the promotion and formation of capital resulting in industrial growth will be accelerated. Before putting hurdles in their way, we will have to consider twice whether we can evolve any other fool-proof system. I say, Sir,

the managing director system will not be successful until we provide the pre-requisite conditions, viz., credit facilities. It is easy to talk of malpractices and abuses in the past, but let me say, that any other system, which would have existed in the past, would perhaps have more malpractices and abuses. In other countries, even when there was managing director system, they have agreed that in any system of management, until public morality is there, there is bound to be malpractice. Therefore, the advocates against the managing agency system must understand these things very clearly before we abolish this system. It is easy to advocate its abolition forthwith but have they suggested any better way? It is easy to ask for their abolition today, or in 1960. I admit, that is the A.I.C.C. resolution. We do not want the managing agency system which existed in those days.

The managing agency system which is advocated and which is adumbrated in this Bill is something different from the managing agency system which was existing previously. The advocates of the abolition of the managing agency system must quite understand the importance of pre-requisite conditions for accelerating the growth of industries, viz., credit facilities, issue houses and the investment syndicates that exist in other countries. That is exactly where we lack. We are just growing. We cannot have everything that we desire. Now nobody in this House or the other House or in the Joint Select Committee has suggested that we can evolve any other system which is better.

Now, Sir, the managing agency system envisaged in the Bill is entirely different from the managing agency system which was existent before.

Now, I will come to the question of remuneration. The remuneration, which includes the managerial ability, has been scaled down to 11 per cent. whether it is director control or managing agency control. First, I would like to concentrate and explain

how managing agents are controlled and then, automatically, I will come to the managing director system. As regards the managing agents, their powers are controlled at present. According to the new Bill, their remuneration is fixed at 11 per cent., which was 14 per cent. previously. I think, there has been great misunderstanding in interpreting the average of 14 per cent. The average remuneration for cotton and textile industry was 22 per cent. and the average remuneration for jute industry was 21 per cent. When the average is 21 per cent, it means, it ranged from 10—15 per cent. in those industries. In the jute industry also it ranges from 10—15 per cent. for which the figures are given. These figures are also published in the Reserve Bank bulletin, which gives the statement of various industries along with the managing agency commission.

Now, Sir, I will just give you one instance in order to elaborate this. The jute industry, in 1952, made a profit of Rs. 3.52 crores. And what was the commission? It was Rs. 1.6 crores, i.e., 45 per cent. of the net profit. And the commission might have exceeded even that limit of 45 per cent., in some cases. Sir, in that bulletin there are various figures given for those industries—the cotton textile industry, the jute industry and the other industries—for the years 1950, 1951 and 1952. There are also the figures regarding managerial remuneration as well as profits. And it can be seen, Sir, that the Finance Minister is bringing this percentage ranging from 20 to 50, down to 11 per cent. only. That is the whole difference. It is no use talking of averages. What was the lowest and what was the highest? He is bringing down the highest, and the lowest will remain where it is. That factor is completely lost sight of by some Members. The managerial remuneration is brought down to 11 per cent., and the minimum is Rs. 50,000. Now let us understand one more thing. Who will draw this remuneration? As I said previously, according to the Central

[Shri C. P. Parikh.]

Board of Revenue statistics for 1952-53, 775 companies made a profit of Rs. 5 lakhs and over. That is the assessable profit on the basis of which the commission will naturally be drawn. Now, Sir, there are 66 companies, whose profits are ranging from Rs. 4½ lakhs to Rs 5 lakhs. And the total number of the companies which will be entitled to draw a commission of over Rs. 50,000 is 1,000. And the total number of the companies in India that will draw remuneration for the managing agencies to the extent of more than Rs 50,000 will be 775 only, and not more. And the others will be drawing less, and even less than 11 per cent., which fact Shri Kishen Chand should not forget. And even technical persons are paid more than Rs. 50,000, but the managing agents will receive less than that. There are many instances of that nature in many companies. And my friend should not forget that Rs. 50,000 is the maximum limit. In many cases, the remuneration may be lower than that. And he should not also forget that all the managing agency agreements will be terminated in the year 1960, and they will be terminated automatically. And till then, if there is any variation in the terms of any managing agency agreement—and, Sir, there will be a considerable variation—the Government's approval will be necessary. And the Government will look into the question as to what remuneration should be given to the managing agents. The Government will lay down all the necessary rules, and I am sure, there will be no favouritism on that account, because the rules will be uniform for all persons in the industry. Therefore, in so many ways there will be some control exercised over remuneration.

Now, Sir, I come to the powers of the managing agents. The present powers are restricted. If the hon. Members will look to clause 368, and the schedules thereto, they will find that they have no power of appointing officers or relatives above the scale prescribed by the board. I, therefore, think that this is a managing agency

in a different form and in a new form, and I feel that it will be difficult to resist that, if we want any industrial development in the country. The second power is to buy and sell capital assets of the company. That is also very important at present. What happens now is that the managing agency can sell the capital assets of the company without referring to the board of directors. But that power is also not there. The sale or purchase of the capital assets has now got to be sanctioned by the board of directors. Now you will find that these powers are restricted. And when these restrictions are there, we must be able to understand that it will not be possible for the managing agents to abuse their powers. Only the administration will have to be active, and the shareholders' association will also have to be active. And it will not be possible then for the managing agents to circumvent the provisions of this Bill, because they are so tight. I think the managing agency which is envisaged under this Bill is entirely different from the one which is existing at present, because its powers and its remuneration are considerably curtailed. And the Board's independence is also guaranteed.

If you see clause 260, it is expressly mentioned therein that certain persons, and especially the associates of managing directors will be elected only by a special resolution. At present, Sir, the managing agents are nominating their persons, and the charge was made yesterday that they are a packed house, and that charge will no longer exist, because the special resolution will require 75 per cent. of the members voting. And that will not be forthcoming in the case of nominees of the managing agents, because the shareholders will immediately say, "We shall not give our approval to such and such nominee, unless you take one man whom we recommend." And thus, there will be a compromise. I, therefore, say, Sir, that this provision to the effect that the associates of managing agents will be elected

only by a special resolution is a welcome feature, and makes the board quite independent. And it meets partly the demand for proportional representation. After all, what is proportional representation? It is giving seats on the board, according to the share-holding. It is, of course, a little cumbersome, and at present in our country, it is not very wise to adopt it straightway. Therefore, Sir, we find that this provision about special resolution is a very salutary provision. This Bill gives enormous powers to the shareholders, because they will be in a position to assert their rights in a full manner. And I will not be surprised if about 50 shareholders' associations are built up in this country in order to bring to book the managing agents for all their actions in the general meeting. And the general meetings which will now be convened will last more than three hours or so. They are now held only for ten minutes or fifteen minutes, because the shareholders know that they have got no voice in those meetings. But according to the Bill now before us, the shareholders will have an effective voice.

Then, Sir, if you look to clauses 296, 294, 330, 356, 360 and 372, you will find that the powers of the managing agents are considerably curtailed. It is said that no loans will be given by the managing agents, and no loans shall be taken by the directors, and no contracts will be entered into with the managing agency associates without the consent of the board of directors. And further, Sir, no place of profit will be enjoyed by the managing agents, associates or their relatives, unless by a special resolution. Therefore, you will find that all the powers by which the managing agents could have an indirect benefit, have now been conferred on the shareholders by this Bill. I say, Sir, that we have now got quite a new managing agency system, and we should accord our full agreement to it. It is no use asking for its abolition. I think, instead of abolish-

ing it altogether, we must try to improve it and put it in a new form.

1 P.M.

I will come to another matter—clauses 293, 356 and 358. At present, the abuse of the managing agency system and the malpractices occur on account of the buying and selling managing agency commission and the proportion of this commission is many times more than the profits of the company. The Finance Minister, by clause 356, has also said that the managing agents or their associates will not be appointed as selling agents. There is a prohibition on this. A resolution by the company is required, where this is permitted. In director-controlled concerns, under clause 314 also, they will require a special resolution for a place of profit and then, under clause 293, in any area, if a selling agency is appointed, it will require the approval of the general meeting. These are the main checks which are put on the managing agents. The director-controlled company is our desire in the country, but it will not be fulfilled by our fond wish or vain hope. They will come when the investment syndicates etc. are there, but till then, they will exist to a certain degree and we will try to promote them, and in their promotion also abuses should not exist. Therefore, the powers of the Board are restricted. What are they? The Board cannot borrow money for the company, if it is in excess of reserves. The Board cannot give any charity above a prescribed percentage. The Board cannot appoint selling agents. The Board cannot give loans to directors and the Board cannot give places of profits to directors' relatives. This is the position. It will be understood that even in director-controlled companies, there will be control exercised on the board of directors to the benefit of the shareholders. One more group of clauses regarding the control both of director-controlled companies and the managing agency companies and which is important is from 397 to 407—that is with regard to prevention of oppression and mismanagement. In that regard,

[Shri C. P. Parikh.]
 the court can interfere. The Government can ask the court to interfere and enquire into the affairs of the company and the court has power to terminate even the managing agency agreement. The Court has power to cancel and rescind any contracts that have been entered into. All these powers are there. But the supreme power is under clause 408 where it is mentioned that Government will also have two directors of their own in any company in which they think that there is an oppression to minority or there is mismanagement. On application of 100 shareholders or one-tenth of the shareholders, they can act. It means that the Government will exercise control through their directors in a way which is beneficial to the larger interests of all the shareholders and therefore there will be no oppression. Over and above this, it is also mentioned that the Government can force proportional representation on any company in this respect, and if proportional representation is advocated by the Government, then the company shall have to adopt it and therefore the board of directors will be quite independent. Thus, there are many ways of controlling the management, both in the sector of managing agency as well as in director-controlled companies.

Now, I will come to the various points which have been raised by the hon. Members.

As regards number of directors, certain Members have suggested that the directorate should be on the basis that one director ~~should~~ not be in a company, where the paid up capital is more than 2 crores, or that directors should not enjoy place of director in companies which have a total paid-up capital of 2 crores and over. How this imagination works in practice is very difficult for me to understand and especially when it is coming from a man who is knowing his business and who is running industry. Do you think that if one company has a paid-up capital of Rs. 2 crores and over,

the director should not do anything else and that he should leave aside his own activities or that he should refuse to be on that board? What purpose will be served by that? If you see the list of directors of companies which have Rs. 1 crore or Rs. 2 crores and over as capital, you will easily find that many people on the Board of Directors are independent people and have great stake of reputation at stake in the country. If they are directors in companies which have Rs. 1 crore or over as capital and if the company is not well run, not only the money but the reputation also suffers and certain persons will not, apart from money, on account of their reputation, associate themselves in companies which don't bring credit to them because in many cases credit, prestige and reputation are more important than money and many people understand that. Now, there is a healthy provision introduced, viz., that a director should be limited to 20 companies and it is a very welcome feature and it has to be given a just trial and it should be seen how it works in the country but the suggestions in the amendments of my hon. friends will have to be weighed on their merits and in the light of the arguments which I have suggested.

Now with regard to the formation of capital, it may be said and it is said by some persons here who are against putting these restrictions on the managing agency system or on the director-controlled companies, that this Bill is complex and that it will stifle capital formation, etc. I think, they are mistaken because looking at the provisions of the Bill, honest persons who want to have their dealings in a proper manner have nothing to fear from this because only two more meetings of the directors will have to be called or one more general meeting. Otherwise if they want to manage their concern in the interests of the shareholders as well as of the country, these restrictions are not oppressive and capital formation will not be retarded. What is expected of the private companies is about Rs. 200 crores as regards small industries and

as regards big factory establishments it is Rs. 200 crores in the industrial establishments; Rs. 50 crores as regards transport; Rs. 50 crores as regards electrical and power industries; Rs. 400 crores as working capital. Now this capital of Rs. 200 crores is fixed. It will easily be forthcoming if you look to past experience. Therefore, there need be no fear about it. On the contrary, the Federation of Chambers have asked the Government to increase this share in the private sector so that there may be fixed assets. Therefore, this Companies Bill does not come in the way of capital formation. That is what I wish to assure the Members of this House.

Now, the Finance Minister has given another assurance regarding the abolition or termination of the managing agency system. He says that wherever promotional activity of fresh units or finance is not required, he would look into the matter, because by 1960, or much earlier, he will look into the affairs of many industries and will see whether they require expansion and whether they would suffer if the managing agency system is terminated, and whether promotional activity is required or not and whether installed capacity is adequate or not or whether these concerns will be able to find their finance themselves. That will be the basis of continuing or abolishing the managing agency system. We must remember that the Finance Minister is responsible for capital formation and also for the industrial growth of the country according to the plans that we have chalked out for the Second Five Years and according to that he has to shape a policy and steer a course which will be least risky and which is capable of less hazards. Therefore he has wisely made the necessary provisions in some of the clauses in this Bill.

Now, I come to some of the figures which had been circulated by the hon. Finance Minister concerning the 1,720 companies that had been considered. Sir, let me say that I do not

dispute the figures. I will only point out that reliable statistical data is woefully lacking in this country and all efforts must be made to maintain reliable statistical data so that the profit and loss accounts, the balance-sheets as well as the position of the assets and liabilities of the companies may be given in a combined form for each industry. In this connection, I have a suggestion to make. It should be laid down that for every industry, the balance-sheet should be prepared for a certain year ending on a particular date, as in the case of insurance companies and banks, i.e., for the year ending the 31st December. In the same way, each industry should be asked to prepare data in a uniform way for all units in that same industry. When the Finance Minister gets this data in a uniform form, then he can compile them and present them in a form that is required to facilitate investigation, research, comparison and so many other purposes. Of course, he has wisely laid down in the Schedule what all will be required to be shown in the profit and loss statement and balance-sheet. The table also gives details as to how the balance sheet should be prepared and what items should be disclosed in it. I think, if these are compiled in a form in which they are presented by the banks and insurance companies, then many members or concerns in the same unit will learn a great deal by comparison with the statements from the various industries or the various units in the same industry. This is very important, because without statistical data by which we can have comparisons with other existing concerns, we cannot make much progress. The facts will then be very clear. I may give an instance. There are 400 textile mills in the country. Out of these 400 mills, 15 textile mills are making as much as one-third of the total profits of the whole industry. While the total profits of the industry amount to Rs. 27 crores, these 15 units alone make as much as Rs. 9 crores of profit. I do not deny that the other units may not be of the same degree of efficiency as these 15 units.

[Shri C. P. Parikh]

But they too require the necessary technical and financial resources and the managerial organisation. And these they can learn from the example of the more successful units. Therefore, we want them to be able to compare and improve themselves. Therefore it is very necessary that these ^{case} statistical data should be available in order for us to work for progress.

In the statement which was circulated by the hon Finance Minister, it was advocated that 13 to 14 per cent is the capital subscribed by the managing agent to the paid up capital of these 1,720 companies. That picture, I submit, is not a correct one. I think, the data that he has given and the information that he has given are not reliable and they are misleading. I refuse to believe that the capital subscribed by the managing agents is only 13 to 14 per cent. Though figures may be there, we have to use our imagination and read them in order to understand them better. I shall show how this mistake has arisen. I think the hon. Minister has taken only those shares which are held by the director in his own name. But as a matter of fact, the whole family of the director owns shares and the other members of the family may own more than three times what is held by the director. So to say that Rs. 29 crores is the capital subscribed by the managing agents is entirely wrong because the investment of the family has not been taken into account. And nobody invests in his own name, but the family of six or seven members also take shares and invest capital, on account of the present system of super-tax.

SHRI BHUPESH GUPTA: That is tax evasion.

SHRI C. P. PARIKH: Whatever it be, my hon. friend knows and he also knows what is coming in the next Budget and how the Government is going to regulate matters. He will then be able to make his comments. The Taxation Enquiry Commission has already made its comments and

the Finance Minister will take the necessary steps. He is not oblivious of these facts.

What I say is that the picture given, that the managing agents contribute only 14 per cent of the capital, is not correct. I am sure, the Finance Minister himself, coming as he does from Bombay, knows that many managing agents, because they did not possess 25 per cent of the capital, were removed from the office of managing agents. And many companies have gone into liquidation because others held more shares. So when speaking on this point, it must be borne in mind that the managing agents, in order to have a control over the company to that degree that is desired for the sake of its efficient working, usually hold from 20 to 35 per cent of the shares. That is the minimum. Therefore, as I said, this figure of 13 per cent can only represent the share of the capital held by the directors only and not those held by the members of his family, and here the share of the family counts more than his own. I would like to be told if I am wrong in this respect. But my feeling is that these figures were compiled by simply writing a letter to the companies and collecting the returns that they made. But we should remember the intention behind getting these figures. We have to draw certain conclusions from them. I would also like to point out that the managing agents are paying far more capital by way of equity capital, otherwise they would not be there. The loans from banks come to Rs. 58 crores and loans guaranteed by the managing agents come to Rs. 7 crores and Rs. 10 crores are the advances. The hon. Finance Minister in another place explained that the total of advances was Rs. 50 crores instead of Rs. 7 crores and I am satisfied. Most of the advances would not have been made but for the fact that the managing agents guaranteed them. So out of the sum of Rs. 58 crores, I think about Rs. 30 crores are guaranteed by managing agents. My hon. friend Shri S. P. Jain had, of course, given the House the instance of the

Bombay Millowners' Association and I will leave it at that.

Next, I come to the question of the commission on net profit which is given as Rs. 6·7 crores. The commission on sales is 7 crores and office allowance is Rs. 3 crores. The total managerial remuneration in the country is, therefore, about Rs. 11 crores. I may here submit that about fifty houses, or rather I would improve upon it and say, about 50 companies in India are paying one-third of the managing agency commission, because Rs. 4 crores and over are paid by 49 companies in India to managing agents, out of the amount of Rs. 11 crores. The rest of the money is by way of office allowance. Office allowance means this. Where the company did not make adequate profit, sometimes people are satisfied with what they get by way of office allowance. But that office allowance also is abolished under the present Bill.

Sir, now I come to the subject of liquidation. Mr. Dhage—I am sorry he is not here—made out a point that the entire capital of Rs. 89 crores was lost and the new capital came up to only Rs. 67 crores. But my hon. friend being an auditor, who examines books and is able to throw light on the figures, I am unable to understand how he has come to this conclusion. Or can it be that being in the Opposition, he does not present the picture as it should be presented? Or as an auditor, has he not taken full grasp of the situation? I really fail to understand. Whatever that may be, I would say that this capital of Rs. 89 crores that has gone in liquidation is not all lost, because more than half that capital must have been returned to the shareholders. What is liquidation? Liquidation takes place when the concern cannot be run efficiently by the present managing agents. That is number one. It may also happen when the concern has to be scrapped, when it is no longer profitable to run it. I am absolutely certain that liquidation on account of scrapping is only in respect of 25 per cent. of the cases; the remaining 75

per cent. of the concerns would have gone into another shape or form and under better persons. There are cases where companies have prospered on account of change in management. Industrial growth, therefore, has not been checkmated to the extent suggested by the hon. auditor-Member.

Another point was made with regard to vertical and horizontal expansion of industries. Ingenious arguments are put forward. I am unable to understand them. Supposing there is surplus capital with a textile mill owner, what is wrong in his starting another industry? I am unable to understand this. If the man starts a cement industry or a chemical industry, what is wrong with it? All the benefits go to the shareholders. Shri Kishen Chand spoke about technical skill; technical skill sometimes is rewarded in the shape of profits, in the shape of high salaries; it is purchased by salaries or by shares in the profits of the concerns. The concern which wants to have the best management always looks for technical skill and pays in the best manner possible, looking to the availability situation in the country. Therefore, a man who is running a cement factory can run a chemical factory. There is no doubt about it. The first thing is whether you have the finances and whether you have the ability to find the proper technical personnel. If a man has not the ability to find the proper personnel, he will not do it because he knows his weakness. There is, therefore, no use saying that there is this much of vertical expansion and this much of horizontal expansion. I think, the argument proffered is only to stifle industrial expansion and industrial growth. It is said that it must come from within automatically. We have no patience. We want industrial expansion at as quick a pace as possible and by all methods at our disposal so long as we do not suffer in the larger interests of the country and do not act to the detriment of the common man. That is the most important thing. On that ground, these arguments are not valid. Another argu-

[Shri C. P. Parikh.]

ment was put forward. It looked funny to me. It was said that persons holding more than ten or more than 100 shares, should exercise lesser voting rights. I cannot understand this. Is it meant that persons should not invest in a certain concern more than a certain amount? Or, is it meant that those who are holding minority shares should govern the majority? What is this? I am really unable to understand. In such a case, how will the contribution of capital be forthcoming to the degree that is desired? I shall speak more when we come to the clauses.

I would here like to make a few suggestions in respect of this Bill. This Bill is a very long one. It is very good that it provides for so many contingencies but it is a very complex Bill. It is not very easy to understand. I think those who are not in charge of company management will not be able to follow it so easily because one must know where the shoe pinches. All these sections will have to be studied carefully and, according to the difficulty that will arise, we will have to find out remedies. The provisions cannot be understood without actual experience of company management. Even if the clauses are presented to the lawyers, they will give an interpretation of a particular clause only, but will not be able to say the effect of a particular clause on the other provisions of the Bill. Therefore, it is very necessary that this complex Bill should be studied in its proper perspective. It is no use offering loose criticism without understanding the implications of the various clauses which, as I said, are evolving an entirely different system of management than what obtains today.

In the revised clause 198, Rs. 50,000 is fixed as the amount of remuneration. The remuneration is put down at 11 per cent. and it includes managerial allowance also. The definition of 'manager' is the same as that applicable to a 'managing director'. According to this definition, the remuneration payable to the managers

will come within the scope of the remuneration fixed. When big concerns have to be run efficiently, one manager may not be sufficient because the powers of the company have to be exercised even while the manager is absent on tour or otherwise engaged. In every big concern, there will be two or three managers. If all of them are to be considered as coming within the scope of the management, then it will be very difficult for certain companies to carry on the work within a remuneration of 11 per cent. The Finance Minister has already said in the other House that he would look into such cases. When one has to appoint a manager, does it mean that he should first approach the Government? Then, when the Finance Minister gives exemptions, we will have to see whether he will interpret it in this way or will make the people run between their places of business and Delhi in order to explain to the Members of the Advisory Commission and to Government as to how this should be done! The inclusion of the managers is not a correct thing. We want industrial expansion; when we want that, we also want the managerial talent to be paid adequately. I can understand Government's anxiety to provide against circumvention of this clause. We can say that any remuneration paid to the associates or relatives will be counted in this 11 per cent. If outsiders are appointed as managers, persons who are not connected with the managing agents or the managing directors, for the promotion and expansion of these concerns, there is no reason why Government should come in this way. The word 'manager' is commonly understood and if this were to be changed and a new name coined, it would create difficulties. Is it the idea of Government that all the companies should change the name of the managerial staff? Was it wise to have incorporated this in the Bill? At this late stage, owing to the Bill having come here at the fag end of the session, amendments may not be accepted; but the hon. Minister should take recourse to an amending Bill, as

and when an opportunity occurs, to remove the word 'managers' from the scope of the managerial remuneration. If, for any reason, it is not possible to do so, then I would suggest it should be made clear that managers are not to be included. There are so many ways of doing this only if the Minister wants to do it. The Minister can say that the remuneration paid to associates and relatives will come within the 11 per cent., whereas any sums paid to outsiders appointed as managers will not be counted. There should be full discretion given to the board of directors. After all, the board will not appoint managers on high salaries for the fun of it. There is no use saying that as it has been provided that way and it cannot be changed now. We must be open-minded and must face the difficulties of the industrialists. If you mention that *bona fide* persons—not relatives or associates—appointed as managers will be excluded, it will go a long way. It will serve the purpose also.

MR. DEPUTY CHAIRMAN: You have already taken seventy minutes.

SHRI C. P. PARIKH: I want about ten minutes more, Sir.

Now, Sir, about exempting the small companies with less paid-up capital. As I pointed out, out of 30,000 companies, 28,500 companies are small ones and out of 12,000 public limited companies, 11,000 are small with a paid-up capital of Rs. 2½ lakhs or less. The profits made are less than Rs. 2 lakhs. Now, Sir, the profit may be Rs. 50,000 or the capital may be Rs. 50,000. We want the development of small-scale establishments in the country.

Now, Sir, the Finance Minister has assured in the other House that he will issue some sketchy booklet to show how the various provisions should be observed by the small companies. It is very difficult, Sir, in practice: it is very easy to say that I will put this in a form in which it will be understood by the other man. We have to

look to the intelligence of the other man, the small company man, whose capital is one lakh of rupees, how he will be able to do it. Therefore, I suggest even in the Rules or in the amending Bill which he may bring in the next twelve months—this Bill is very complex with so many things, so many omissions, and so many interpretations will be made—that as regards small companies, we should not be very particular, if breaches are made with regard to certain provisions, unintentionally. That is number one. If he can exempt from the operation of certain provisions of this Bill, the small companies with a certain paid-up capital, I think, that will be very welcome and it is necessary because we do not want the small man to be encumbered with so many technical formalities which only the other persons, the clever persons, will be able to take advantage of. Therefore, we should not penalise the small man who has a profit of Rs. 20,000 or Rs. 50,000, or has a capital of Rs. 1 lakh or Rs. 2 lakhs. Why encumber them with so many provisions? Therefore, treat them as private limited companies and give them exemption from some of the clauses. There are so many ways of doing it. The Government can give them the exemption by having an exemption clause to the effect that from these provisions such company is exempt. That is another way of doing it.

Now, Sir, with regard to the notification that may come to be issued by 1960, it is good that the hon. Finance Minister has given an assurance that there will be an enquiry before an industry is notified and, I think, he will give a similar assurance to the members of this House, so that we may feel convinced that proper enquiry will be conducted before there is any notification. I want just to explain to this House how this will arise. I pointed out some time back that 15 textile mills are making one-third of the profit and 385 mills are not making adequate profit. Therefore, if you judge the textile industry from these 15 mills. I think, Sir, it

[Shri C. P. Parikh.]

would be a sorry picture. These 385 mills require finance, require technical skill, require renovation and require loans. Who will provide them, that Government must first consider. You must not look at the top; you must also look at the bottom, and unless you look at the bottom, I think, Sir, we will not be able to improve such concerns. It is no use saying that we will abolish the managing agency system, but what will you substitute in its place? We have to see how they can be run much better than they are run at present.

Then one more suggestion I have to make to the hon. Finance Minister. The administration of this Act is very difficult. However much we may be assured by him that it will be properly administered in this respect, delays are bound to occur and delays in business are dangerous. Justice delayed is justice denied and in business delay may prove dangerous, because much of the growth and expansion will be checked on that account. Therefore, in order that this may not happen, first of all he must see in a general meeting what is the voting strength, whether the members unanimously vote for a resolution, who were the dissentients, what was the percentage of voting, and on that judgment should be formed and if there is a special resolution in a certain respect, Government should not interfere. Why should Government interfere when 75 per cent. of the shareholders desire a thing to be done in a certain way, unless it is not in the public interest? I can admit that unless it is in the public interest, Government should interfere but in the other cases, when normal things are being done, why should they interfere? Therefore, there should be no rigidity but flexibility and in the Rules also, you must provide for it that wherever a special resolution is passed Government will give utmost consideration for approval of that special resolution in as short a time as possible.

Now, Sir, with regard to workers' directors. It is very well, Sir, that

wisdom has dawned on the labour leaders. There was the labour panel meeting about three days back and we as employers asked them: Do you want workers' directors? What do you want? They did not want their directors because, to be a director one must have the capacity to discharge the work of a director and they very well know that the present workers in our country, without the help of outsiders, are not capable of discharging their responsibility and I think, Sir, after making the demand, it is very well that they withdrew that demand.

As regards that other point, I will have to say that we are for co-operation or consultation with the workers or technicians. I think, the success of a concern depends on the consultations with the technicians and the workers; the success of any management depends on that and we have suggested that consultative machinery. Whatever machinery you desire, have it, but do not think that some class interests will prevail, or personal interests will prevail. You must take advantage of the position to see that the interests of all the shareholders and all the other workers do not suffer, because there must not be class jealousies in this respect in big manufacturing concerns.

Now, with regard to the secretaries and treasurers, the remuneration is brought down from 10 per cent. in the case of managing agents to 7½ per cent. That is very good, Sir. The secretary-treasurer institution, the Finance Minister thinks, will grow in future. I also join in that hope, but let us see whether the institution of secretaries and treasurers will prosper in the country without adequate finance. The prerequisite for finance are the underwriting houses or investment syndicates, because unless finance is forthcoming who is going to appoint the secretaries or treasurers? Those persons who are holding a block of shares of even less than 50 per cent., they will always be in charge of the control of the company and how are you going to displace them? Therefore, the appointment

of secretaries and treasurers will be dependent on them. You said, Sir, that they will have no directors. That does not matter. What is the use of having one or two *ex-officio* directors when the entrepreneur or the managing agent or the managing director or the shareholder himself knows that he is commanding the majority directly or indirectly in the concern. So the appointment of secretaries and treasurers depends on them. Therefore, unless outside finance is forthcoming in an adequate measure, this institution will not prosper. In this connection, I want to know from the Finance Minister that although the remuneration for the secretaries and treasurers is fixed at $7\frac{1}{2}$ per cent., whether they cannot appoint a manager on a remuneration of $3\frac{1}{2}$ per cent., and get that 11 per cent. which the managing agent at present would get. I do not understand what is the difference, and the appointment of managers does not require the sanction of Government as does the appointment of the managing director or managing agent. Therefore, the concerns can very well draw $7\frac{1}{2}$ per cent. as the remuneration of treasurers and secretaries and $3\frac{1}{2}$ per cent. as the remuneration of managers. So all the 11 per cent. which is intended to be drawn in the case of managing agents will be drawn here. Therefore, Sir, if the proper growth of the system of secretaries and treasurers is to be promoted, I will make this suggestion that in all new appointments, where secretaries and treasurers are appointed on the basis of $7\frac{1}{2}$ per cent., no additional remuneration by way of a percentage on profits will be given without Government sanction. The hon. Finance Minister must make a provision like that. Then, only this alternative institution will be effective for the purpose which he has in view and technical persons will come in and then only we can form a judgment how this institution of secretaries and treasurers prospers. It is no use saying merely that they will draw only $7\frac{1}{2}$ per cent. when they are allowed to draw the other $3\frac{1}{2}$ per cent. also on another account. If this institution is to be promoted—and it

should be promoted—and when Government is giving its approval to the new institution it should be laid down as a condition precedent that no person will draw more profits over and above this $7\frac{1}{2}$ per cent. of the net annual profits. And no person should be appointed unless the company had obtained the sanction of the Government. That is the whole thing. I am not objecting to the institution of secretaries and treasurers. It will grow. As I have pointed out, there are only 84 companies in India which are managing more than one company. Two companies are allowed to be managed. So, only 60 managing agency companies will remain, which will have management of more than two companies and, therefore there should be no fear that there would be concentration of power. Naturally, if there is an agency which has, say, ten companies to be managed then the Government control will be there, but the intention is that it should not be more.

Now, Sir, I have given some of the points that I have got and I must express my thanks to the hon. Finance Minister for accepting some of the suggestions which I gave immediately on receipt of this Report of the Joint Select Committee. When I read the Report of the Joint Select Committee as it emerged, I found that this Bill could be very easily circumvented in its fundamental provisions because of the various lacunae that were there. One such lacuna was in the definition of the term 'associate'; it was there in the definition of 'directors'. As regards the indirect form of benefits which were to be enjoyed by managing agents or managing directors, I think this Bill, as it emerged out of the Joint Select Committee, was not an improvement on the old Act. I wrote to the Finance Minister about it and I am thankful and grateful to him for accepting them because I knew that, when the Bill would come before this House, it would be very late. I also told other Members that if we wanted any amendments to be incorporated, we must write in

[Shri C. P. Parikh.]

advance so that they can have them accepted earlier, before the Bill came to this House. Sir, it shows that the hon. Minister's mind is open in this respect inasmuch as, without even discussing my suggestions with me at any great length, the hon. Minister accepted some of them straightway seeing that they were omissions. I had sent in a dozen suggestions about ten of which he accepted and about the two, which he did not accept, he gave an assurance in the other House that they were administrative matters and they would be borne in mind and implemented. That was as regards secretaries and treasurers. He gave that assurance in the other House and, I am sure, he will give it here also *there* that the appointment of ~~secretaries~~ and treasurers will be kept in his hands and that the Government's approval would be necessary. He will see to it that there is no abuse by circumvention by managing agents converting them into secretaries and treasurers. I am making this specific issue that only 7½ per cent. should be there and if any additional remuneration is to be given, then the approval of the Government should be made necessary. If the hon. Minister inserts that condition, our purpose will be served.

MR. DEPUTY CHAIRMAN: It is time, Mr. Parikh. Instead of ten, you have taken fifteen minutes.

SHRI C. P. PARIKH: I am sorry, Sir. I will just finish.

Sir, I had made another suggestion—I made it here also—and the hon. Minister has accepted it by a statement in the other House that he will consider the suggestion that whenever the remuneration of the managing agents is over Rs. 20 lakhs profit, then it should be on a sliding scale. Now, it may not be in the Bill itself; I can understand that. There will be variations of agreement; there will be new appointments and reappointments and at that time he will have this in his consideration so that the public or the shareholders may not

consider the remuneration to be excessive in the present socialist pattern of society. The hon. Minister has promised to give full consideration to this. Sir, these are some of the observations that I wanted to make. With regard to the details, there will be enough time when we take up clause by clause consideration.

SHRI BHUPESH GUPTA: Mr. Deputy Chairman, we have heard a very long and lively speech from the hon. Mr. Parikh. As you know, he is one of the three musketeers of the Big Money in this House and I find that all the three musketeers are present. However, I enjoyed his musketry, because he does it from his point of view quite well.

SHRI H. P. SAKSENA (Uttar Pradesh): Quite graciously.

SHRI BHUPESH GUPTA: As I was listening to him I felt that the hon. Member had fulfilled his function in presenting before this House his case. As you know, when the matter came up before the country, certain criticisms were offered against the managing agency system, against the gentlemen of the Big Money and against the manner in which the companies of this country are run. At the same time, certain suggestions were also offered by certain sections of the Press and also by members of the public and I have no doubt in mind that those sentiments, feelings and opinions had been shared by many members of the Congress Party. As the Bill was being discussed in the other House, we had the spectacle of a number of meetings of the Congress Party being held in the Central Hall and elsewhere, in order to pacify the feelings of the Congress members, and it was reported in the Press that the Finance Minister was asking as to who were his masters. I do not know what answer he ultimately got, but I know that the masters behind the Bill are the musketeers of the Big Money and that is why I find there is so much encouragement and enthusiasm on their part. But I must confess that this

measure has disappointed the country, including those people who are inside the Congress and also of course those who support the Congress, because it was the intention of people from both sides of the House as well as outside in the country, that regardless of political parties, the company law should be so amended, that some of the evils are remedied, so that the reconstruction work could proceed along correct lines. That is how the people felt, but the hon. Finance Minister, the champion of the Big Money, has brushed aside the wishes and criticisms of the people and has taken the brief from the millionaire class. The little improvements that have been made are undoubtedly welcome in so far as they are improvements, but what we wanted is a radical change, as far as is possible within the structure of the present economy, in the system of company laws of the country. Sir, I confess I never held a share script—nor will I ever hold one in my life—and I do not know the capitalist class from a very close range. I trust the hon. Finance Minister is deeply in their confidence and is familiar with their ways and practices. As far as I am concerned, I know them as a layman from outside, and from whatever I gather from the hundreds of trade unionists of our party spread all over the country in the different industries, who come to grips with this capitalist class every day in defence of the vital rights of the workers. I come to know the capitalist class as a consumer when I go to the market to buy my daily necessities of life. It is on the basis of this acquaintance, that I shall speak today. Therefore, if there are some gaps in my understanding of certain matters, I stand subject to correction.

But I think, I know sufficiently well about the doings of the Big Money and the businessmen of the upper class in this country to tell a few home truths to this House, and I hope the House will kindly bear with me, and so will the Musketeers present. Sir, I do not wish to offend the feelings of any hon. Member, even if he belongs to the Big Money, be-

cause the issues involved are not of a personal nature. Certain socio-economic questions are involved in this matter. That is why I will have to speak on the subject and say certain unsavoury things. I wish, I had been spared the task of, shall we say, saying unpleasant things, because I would like to leave the washing of the dirty linen of that class to that class itself. But it appears that I have to say something because the interests of the workers, the public and the national economy as a whole are inseparably involved in the questions that are before us. Sir, I do not like to enter into an ideological mock fight here. I see some hon. Members trying vainly to search the "socialistic pattern" in this marathon Bill, and having searched it, many of them have been thoroughly disappointed. I am very sorry for their disappointment, but I think the labour was a waste. After all, this is a Bill to tackle or to deal with certain internal affairs of the capitalist class. There can be no question of socialism there. As far as I am concerned, I do not see an iota of socialism in this Bill. Therefore, I am not assailing this Bill or more correctly, assailing certain provisions of this Bill, from the point of view of whether they are socialistic or not. That is not the issue at all before me and I hope other hon. Members will also do the same and not waste their time in trying to find out some grain of socialism out of this Bill. I do not believe in rope trick, nor do I believe in the socialistic pattern of the Congress party. Therefore, I say frankly that I take it on merits.

And what is this Bill? Here we could have, perhaps within the present structure of our economy, so modelled the company affairs that there is some amount of direction and control in the interest of the economy of our country, for national reconstruction, which the Government claims to have embarked upon. Although we do not agree with many of their plans, we certainly do stand for the industrialisation of the country and that, too, at a rapid rate.

[Shri Bhupesh Gupta.]

Sir, as you know, first I would like to deal with the structure of our companies. The honourable Mr. Parikh spoke at length, but he did not deal with it in the way I would like to deal with it. There were in the beginning of this century, 1,340 joint stock companies, with a paid-up capital of Rs. 34 crores 70 lakhs. In 1939, just before the war, the number went up to 11,114 joint stock companies, with a paid up capital of Rs. 290 crores. There, too, you will see that even before the war, when the British were fully in the saddle, the joint stock companies increased not only their number but also their paid-up capital. It is not, therefore, as if it is only under this regime that the companies are growing and the paid-up capital is growing. In order to bring that point home I have just mentioned this fact and I do not want to dilate upon it.

Then, between 1939 and 1945, the number of joint stock companies in this country was 14,859, with a paid-up capital of Rs. 389 crores. We find today, in the current year, that there are about 29,700 joint stock companies with a paid-up capital of Rs. 983 crores. Such has been the line of ascendance of the joint stock companies in the country, both in respect of number and in respect of paid-up capital. Now, any one can say from it, on a superficial look, that there has been progress. I do not deny that there has been some little progress. Certain industries have certainly come up in various places and there has been also an addition to the capital that had been in operation. But here I would like to draw your attention to one simple fact; that is, in the last eleven years—as has been admitted by the Government—the new registrations of joint stock companies account for only Rs. 67 crores. That is what the Government itself has admitted—in a period of eleven years. Now, if you take the years between 1945 and 1955 you will see that in this period the paid-up capital of the joint stock companies—that is also about ten years or so—has gone

up by Rs. 594 crores. What do we get? We get from this? As against the increase in the paid-up capital of Rs. 594 crores in a period of ten years, new registrations account for only Rs. 67 crores of the paid-up capital. Now, how do I square this? The answer is very simple. Much of the money lies in the expansion, that is to say, the progress in this matter has not been achieved by starting new industries, by opening new sectors or new units of industry. It has been mostly done by the expansion of existing industries in the country. This is the story that is hidden behind this figure and this is something which hon. Members—I would request them—should kindly think over. We are an underdeveloped country, our economy is dependent and backward. And we want in our country not only a quantitative addition to the capital structure, but also the setting up of a whole number of industries in various directions. You will see that the record of the last ten years or eleven years in this respect has been hopelessly discouraging in this matter. Sir, we should have thought that much of this money would be utilised for starting new units, new industries—not that I am against any kind of expansion. Sir, why this expansion? Now, the hon. Finance Minister has not cared to answer it; nor has Mr. Parikh tried to explain the position, because these do not suit them. Expansion has been there, because a section of industrialists and the company owners have taken it into their head that they must somehow or other make money, by all kinds of expansion in their units, by introducing rationalisation, by introducing other measures for intensifying the exploitation of labour—sometimes they call it labour intensive efforts. Now, this has been done. The direction has been not so much towards the development of our industrial economy as for somehow or other grabbing profit. That is the story behind it.

2 P.M.

This is something which we should take note of, when we have so many

statistical figures and data for our consideration. Now, this is a very dangerous phenomenon in our industrial economy. Nearly 600 crores of rupees had been spent not for the industrial reconstruction of our country, but in a manner in which the companies' directors and bosses wanted to spend them with a view to becoming richer and richer and earning higher and higher profits. Sir, as you know, it is estimated that the joint stock companies earn a profit of about 250 crores of rupees a year. This figure is not an officially verified one. But it has been more or less accepted by various sections, in both sides of the House. How is this money spent, we do not know. I can assume from what I have stated earlier, that much of this money goes not for the development of new industries as for expansion of certain industries in certain specified directions. I can tell you from experience that all these—the jute mills, textile mills and a few other industries—have launched a scheme of rationalisation and the money is being spent for introducing rationalisation which leads, on the one hand, to growing unemployment in the country and on the other, crushes the smaller units and industries. This is one aspect of the story.

We know again that this is not a complete picture. The over-whelming majority of the industrial companies and undertakings in our country are relatively small ones. Although they are spread all over the country, they are very small. I can tell you from what we see in West Bengal, which is perhaps the most industrialised State, an advanced State, in India. There, you will find, about 75·2 per cent. or 5,099 units of joint stock companies have capital assets between Rs. 10,000 and one lakh. The entire capital assets of the joint stock companies which comes to about 3·4 per cent. of the total capital assets of the joint stock companies. This 75·2 per cent. of the total joint stock companies accounts for about Rs. six crores and 32 lakhs of the total capital assets, as against 151 joint stock com-

panies, constituting only 2·2 per cent. of the total number, with capital assets over Rs. 20 lakhs. These big companies, together, account for Rs. 93,24,00,000 or 50 per cent. of the total capital assets of the joint stock companies in West Bengal. That is the structure of our economy; that is the structure of our industries. On the one hand, you have got a majority of the industries with very small capital constituting a very small fraction of the total paid-up capital or capital assets. On the other hand, you have got a handful of big concerns sharing between them the greater part of the total capital assets of our country.

Now, you can understand how Rs. 250 crores of annual profit is divided amongst the industrialists. I shall say that much of this goes to the bigger ones because it follows capital investment and capital outlay with monopolistic elements and bigger units. No wonder, therefore, that on the one hand, we have got a big number of smaller units and industries going into liquidation. On the other hand, we have very big concerns flourishing every day with all the blessing, that the Government can shower on them. Such is the story of the industrialisation of the country. It is not an accident, therefore, that even to-day our industries do not account for barely 7 per cent. of the total national income, despite all this rise in the number of units and in the size of paid-up capital. You will see that the contribution the industries have made to the total national income is as low as 7 per cent. or just less than about Rs. 700 crores. This is what is happening.

One factor I observe in the Bill. It is about the foreign concerns. Since we are re-writing the entire Company Law, we should have taken care to see that we take certain measures, make certain provisions against the foreign concerns in our country, especially the British. I do not speak with a certain kind of dogmatic approach against the British. This is not my intention at

[Shri Bhupesh Gupta.]

all. I say this thing because it is essential, in order to have industrial advance, to curtail the powers of the British, to eliminate them. I make it quite clear that although we stand for socialism, our aim is socialism, at the present stage due to various factors we know that socialism is not coming overnight. The capitalist industries will have to play a part and the private capital will have to play its part also. Therefore, we are intensely interested in seeing how the companies are run and managed with a view to help re-building the countries' economy. We come up against obstacles from foreign concerns. I find they have been treated in the same way as any other Indian indigenous concern. I think this is not the right approach. Here, I can give you the figures of various industries:—

in 1939, there were in India, 870 foreign concerns with a paid-up capital and debentures totalling Rs. 1,108 crores. In 1954, the number declined a little and came to 822, but the paid-up capital and debentures showed an increase. It is now 1,255 crores of rupees.

This is about foreign concerns. Here, I give a break-down of the British concerns. Out of 822, there were 577 British concerns, in 1954. In other words, of the foreign concerns, the British constituted a majority and there is no doubt that the majority of the paid-up capital and the debentures also go with them. Then, of course, there are 77 U.S. companies operating in this country. It was necessary for the Government to have a separate chapter in this Bill in order to deal with them, because for the development of indigenous economy and the industries of our country, it is essential to put them at a certain disadvantage. If I were in their position, I would have, of course, created a situation that they would leave the country and it would be possible for us to take them over. But I would not expect such a step from

the hon. Finance Minister. Even so, I should have thought, having regard to the views of Congressmen, the feelings of Congressmen and the general consensus of opinion in the country, a chapter would be added to the Company Law in order to see at least, that they are not in a position to get on in the old way and make enormous profits and take them out of our country to the detriment of our economic growth and development. Exploitation by those industries should have at least been curbed, if not eliminated, in the Bill. This Bill, in this respect, disappoints the country. Sir, I do not know why they forgot all about this, when they sat down to redraft the Company Law. It is possible, Mr. Deputy Chairman, to add a clause in the Bill in order to discriminate against them. I use the word "discrimination", not on account of prejudice against anybody, but in the interest of national economy, because at present, unequal relationship obtains in the industrial field and the British concerns are getting all the advantages for generations. These advantages have to be eliminated if we are to find our feet in the industrial field.

Sir, I have got this little booklet, containing the speeches of the hon. Finance Minister. I do not know why he has taken it for granted that we would be satisfied with this brochure and that it would not be necessary for him to speak for more than 35 minutes. I can understand; perhaps he left it to Mr. Parikh to cover the ground for him. In this booklet certain things are not stated. You must face facts about profits. Here I would like to point out a few things; for instance the profits of the tea companies. I have in mind the British tea gardens. These foreign concerns should be ousted and, simultaneously, the Indian monopolists should be curbed in our country. That should be the line of approach in your Company Law. Here, we find the profits of the tea companies incorporated in Britain for the first ten months. As compared to 1953, their profits have doubled in 1954. Remember, you cannot deny

such facts. These figures are published in their journals. 24 British-owned tea gardens in Duars, registered in India, have made a total profit of Rs. 1,89,64,282, on a capital of Rs. 1,90,32,800 in 1953. That is to say, in one year these companies have reaped a profit equivalent to their total paid-up capital, including, of course, the capitalised profit.

Now, Sir, it has been found that these concerns have a reserve of Rs. 2,23,40,542. This shows how the companies are being run in this country. They are annually realising the same amount as the profit, if not more, as their paid-up capital. The huge sums these companies set apart for various things are completely outside your control. This measure hardly gives any assurance that such money would be utilised for the development of the country's economy.

The British-owned tea gardens in the Terai area had a paid-up capital of Rs. 27 lakhs, in 1953 and made a profit of Rs. 26 lakhs. The annual profit of these concerns equalled their total paid-up capital. I was rather amazed at the eloquence of the Finance Minister in defending the managing agency system, as if India would have gone to rack and ruin if the managing agents had not been so vehemently defended and upheld by him. I cannot understand it. Sir, the biggest managing agency firm in our country is the Government of India because it is the managing agency for the entire capitalist class and, therefore, I found the Managing Director speaking so eloquently about the managing agency and the great things that they have done.

THE MINISTER FOR REVENUE AND CIVIL EXPENDITURE (SHRI M. C. SHAH): And you are the shareholders.

SHRI BHUPESH GUPTA: Shareholders who are in revolt. That is why you had a company meeting in the Central Hall and you do not know who are the masters!

Now, Sir, the picture drawn by the Finance Minister has nothing to do with the reality. All fine things on earth have been said about the managing agency. We were expecting from the Government some statement of accounts as to how they are getting on with their profits. Here I read out a statement which shows the amount of profits they have made during 1949-53:

Gillarders Arluthnot—

Paid-up capital as on 31st December 1953	Rs. 90,00,000
Profits, 1949-53	95,53,365
Percentage	106

Balmer Lawrie—

Paid-up capital as on 31st December 1953	80,01,400
Profits, 1949-53	1,21,45,502
Percentage	151.7

Shaw Wallace—

Paid-up capital as on 31st December 1953	1,50,00,000
Profits, 1949-53	1,04,47,363
Percentage	69.6

Bengal Paper Mills (Balmer Lawrie)—

Paid-up capital as on 31st December 1953	71,00,000
Profits, 1949-53	56,37,768
Percentage	79.7

Calcutta Electric Supply Corporation—

Paid-up capital as on 31st December 1953	£ 61,62,646
Profits, 1949-53	£ 74,89,897
Percentage	121.5

Such is the story of profit making. I have got another publication of the great All India Congress Committee entitled "Economic Review". I think the hon. Member opposite recognises it. In its Independence Anniversary Number, I saw an article, written evidently by a Congressman. It says that during 1947-53 the managing agencies with a capital of 36 lakhs made profits of Rs. 1,09,56,000.

Now, coming to the South, Binny & Co. with a capital of Rs. fifty lakhs, during the same period as quoted above, made a profit of more than

[Shri Bhupesh Gupta.]

Rs. 84 lakhs. I do not know whether the hon. Ministers have time to read the journals of the A.I.C.C., because sometimes there I find some very useful material from their angle. Such material should not go un-read.

AN HON. MEMBER: Does the hon. Member benefit from these articles?

SHRI BHUPESH GUPTA: Are you aware of the existence of this article?

SHRI M. C. SHAH: It is strange, you read this article.

SHRI BHUPESH GUPTA: Now, this is the position with regard to foreign concerns. All that I want to say here is that these managing agencies and these concerns are in the grip of monopolists. And the hon. Finance Minister himself has said that about nine families possess 600 directorships. Sir, we, in our days, used to know the Nizam possessing so many things. But now we find nine families possessing 600 directorships. Are we living in a wonder land, or what? Nine families possessing 600 directorships? It is admitted in this book, which has come from the Finance Minister himself. That is why I say, Sir, that a terrific concentration of capital has taken place in the hands of the big money.

Now, Sir, I would like to tell you how these companies make their profits. We have been told by Mr. Parikh that the remuneration has been reduced, and now the managing agents would not get more than 10 per cent, and what not, and the minimum is there, Rs. 50,000. And he, of course, shed tears and pleaded with the Finance Minister to revise the position to his advantage. But how are these profits made? You cannot control the profits until and unless you go deeper into their affairs. That is what I wish to convey to the House. Profits are being made by the exploitation of the workers and the consumers. Let there be no mistake about it. Therefore, we are interested in finding out as to what provisions you

have got in order to protect the interests of the workers and of the public. You cannot, of course, provide everything in the Companies Bill. But it is still possible to have certain provisions which do not make it possible for the company managers and directors to grab the bulk of the earnings of the industrial undertakings of the country, and thus let down the workers on the one hand and the consuming public on the other. Sir, as we know from our own experience, the profits are mostly by exploiting the workers and fleecing the public, and this is what I wish to tell the House.

Sir, it is known to every Member in the House, if they will try to remember some past things, that during the war period, the textile mills made enormous profits. Mr. Parikh might be knowing that fact. I had studied some materials that emanated from the Provisional Parliament. A lot of material used to come out at that time I was at that time underground, but was very much interested in what Prof. Ranga and others were saying there at that time. I remember some of the things. Sir, this is a pamphlet which I wrote when I was underground. I took down from the Provisional Parliament certain facts which are quite revealing. Sir, you will find that, between 1940 and 1945, the textile mills made a total profit of Rs. 360 crores on a paid-up capital of Rs. 60 crores. These facts were revealed in that Parliament, and I think some hon. Member who used to criticise the Government, gave out these facts. Then, Sir, as you know, during the war time, these profits were made by them through blackmarketeering and profiteering, without restraint or restriction. It does not lie in the mouth of the champion of the textile mills to say that the Government did not control it and therefore the capitalists made that profit. Sir, I would like to ask him one question. Assuming that the British Government was bad, and as bad as it was, why did you make so much profit? After all, you were cheating the public, and you were cheating your own countrymen. You

boosted up the prices of cloth and let the whole country go without cloth. You could certainly have stopped such a thing. Here the hon. Member....

SHRI V. K. DHAGE: Is that including or excluding the black market?

SHRI BHUPESH GUPTA: Excluding, of course. Sir, profits travel in so many channels. I am describing one or two of them. Now, the hon. Minister comes from Ahmedabad, I believe. And whenever the millowners from Ahmedabad come here, they are always his guests. (*Interruption.*)

Now, Sir, I will just tell you what happened in Ahmedabad. On the 24th of April, 1948, the price of cloth there was about 12 annas or so per yard; and on the 25th, it shot up to Rs. 2-1-0 per yard in one day. And I refer you to the Hindustan Standard which is not a Communist paper, but which belongs to your faith. That paper wrote in its issue of the 9th May, that the millowners in Ahmedabad earned in 12 days what they would have normally earned in 12 months. I refer you to the Hindustan Standard of the 9th May, 1948, wherein you will find this statement of fact. Now, Sir, as you know, after the decontrol in January, 1948, which was obtained partly by fraud, partly by deceit, and partly by giving all manner of false assurances, during the course of 100 days that followed, the textile millionaires of India made an additional profit of Rs. 100 crores. And that was also talked of in the Provisional Assembly, or the Constituent Assembly at that time. We must therefore see, how these profits are being made. Sir, there is no guarantee in the Companies Bill against these types of practices being continued. There are certain formal guarantees, I agree. But all these figures that I have given will show that it will be possible for the company owners and managers to continue along their own line, maybe, a little more carefully and under certain fear. Sir, the hon. Finance Minister talked of the Kandyan regime, the Damocles sword, or something like

that. But they are getting the sugarcandy from the Government. Sir, you will see that profits are made now, not so much by blackmarketeering, as by other methods. Blackmarketeering, of course, goes on, but not on the scale on which it went on during the War. Now they have resorted to intensified exploitation of labour, and we find that the Government is siding with the capitalists. They are allowed to spend their money on various rationalisation schemes which means an intensified workload on the labour, and keen competition against the smaller units. That is, Sir, most distressing, especially when the Government gave an assurance in the Development Council's meeting to the private sector, that out of Rs. 750 crores that would be allowed to be spent during the Second Five-Year Plan period, Rs. 45 to 50 crores would be spent for rationalisation. We object to such a thing, because nothing has been said here to make the position clear. Sir, my friend should understand what rationalisation means and if he does not understand it here, the Labour Minister will have to understand it elsewhere. This is a most dangerous thing that the companies today are trying to boost up their profits by exploiting the workers. They have intensified exploitation of labour in the jute mills, where you find that the production has increased, but not the working strength. Then, you have got the Ahmedabad mills where rationalisation has been resorted to. And recently, you had the spectacle in Kanpur, where they had tried to introduce the rationalisation scheme. Sir, Bombay and Ahmedabad had already given the lead in regard to this matter.

[THE VICE-CHAIRMAN (SHRI H. C. MATHUR) in the Chair.]

This is how the company bosses are trying to run the companies to the detriment of the working classes, who are really the producers of the wealth of our country. It is a most shameful feature of the whole business that there are no provisions in order to protect the working classes against intensified

[Shri Bhupesh Gupta.]

exploitation, in conformity with the economic requirements of our country.

Then, the workmen have been ignored. Another device is to ignore the working conditions of the workers. They are not concerned about it. I don't know what the directors do when they sit on the directorate at the meetings of the board; what they discuss and what they do. I don't know, but whatever they may or may not dream, one thing I know and that is, that they are not at all interested in the conditions in which the working population functions in the industrial undertakings and companies. I should have thought that there would be provisions—some obligatory provisions—in the measure which compelled the board of directors to go into the conditions of workers, to look into it, and to continually endeavour to improve the conditions of the workers; and the companies should be judged by how they deal with the public on the one hand, and with the workers on the other, by way of improving the lot of the working classes. I find nothing of that sort here. I tell you this, in order to point out another fact that when we are discussing the manager's fees, the managing directors' fees and what not, we forget all about what the workers are getting in those industries, but for whom the industrial development of this country can never progress. In the Darjeeling Tea plantations, what you get is simply shocking. An adult worker gets only Rs. 27/8 per month. In the Terai area, one gets Rs. 37/2 and in the Duars area, one gets Rs. 37/3. And if you look at the employable child labour, you will find that they get Rs. 26/2 in the Darjeeling area, in the Terai area, Rs. 24/2 and in the Duars area, Rs. 25/2. Yet the tea industry is making profits with both hands and their profit is soaring high every year, while 1·3 million of India's humanity, those people who have braved the jungles and built the plantations there with their toil and sweat, are condemned to a state of life like this. 1

think, if the company owners had not thought over this matter, the framers of this Companies Bill should have given some attention to it.

I would like also to point out what is happening in other industries. In the jute industry you will find, that in West Bengal, they get wages and dearness allowance of only Rs. 63. in Kanpur Rs. 59; in the paper industry in West Bengal, they get Rs. 65 and in the Coal mines in Bihar, they get Rs. 55, and in Bengal also, Rs. 55. Such is the rate the workers are getting, when millions of rupees are being minted out of these industrial undertakings. This is how, by exploiting the labour, by depriving the labour of its fruits, the millionaires of this country are building their fortunes, of which they today talk so proudly. This is another side of the story. I want the hon. Members to bear in mind this fact, because unless and until you alter this condition, you cannot have a different picture. In order to control the companies and bring them in line with the national requirements, what we demand is living wage for the workers and a national minimum wage for the industries as a whole. That is a very vital thing. We are not primarily concerned with the Companies Law only. We are concerned also with the fact of how the workers are being treated. If today, you ensure a national minimum wage and fix living wage in the interest of the workers, you will have automatically curbed the power of those monopolists at the top and at the same time expanded the internal home market for the development of our industrial sector. Because unless and until the people have their purchasing power raised, they cannot buy things and if they cannot buy things, the industrial expansion of the country cannot go on. This is another aspect of the matter to which I would like to draw the attention of the hon. Members. We have been told about the monopolists and the managing agents and all that. I would like to mention a few facts about it. Mr. Birla seems to have stated, when he

came up for giving evidence before the Company Law Committee, that there were about 1,400 to 1,500 managing agencies in the country. Maybe the number is a little less or a little more, but this is the figure that he gave. We have been told by the hon. Mr. Parikh, how well they have been serving the industries. I for one, do not deny that the corruption would remain, even if the managing agents went. But the managing agency has been one of the *modus operandi* on the Indian soil, in the first instance of the foreign capital, and then also of the Indian monopolists, to exploit the people. I want to eliminate this particular *modus operandi*. That does not mean that I have an illusion that with the abolition of this, the corruption indulged in by these big business people will go, but I want to do away with it. That is my point. What he has said is of course quite interesting to hear and he has done his job ably well, himself being very close with that. Naturally he would do it and I hope he will forgive me, if I fulfil my part of the job also.

Sir, as you will see, first of all you must remember that, as I told you, nine families hold 600 directorships in itself, a most condemnable feature of our economy. Andrew Yule manages 78 companies and holds 138 directorships. Bird and Co. manages 31 companies and holds 80 directorships. Martin Burn manages 20 companies and holds 116 directorships. Macleod manages 55 companies and holds 69 directorships. This is about foreigners, or some specimen from the foreign capitalists. Let us turn to the indigenous lot.

Singhania Brothers have between them 107 directorships. I hope some reasonable and public-spirited hon. Members on that side of the House will kindly note them and use these figures here and elsewhere. Dalmia-Jain Brothers—and I am glad to see that one of the gentlemen here is present—hold 105 directorships according to the old figures. Ruia Bros. 80;

Birla Brothers 60 directorships; Podar Brothers 55 directorships; Bangar Brothers 52 directorships; Jatia Brothers 51 directorships; and Thapar Brothers (Karamchand Thapar) 35 directorships.....

SHRI B. C. GHOSE (West Bengal): How many brothers have they?

SHRI BHUPESH GUPTA: Now this fraternity is very well known to the country—we call them blood brothers. They are blood brothers of the big money. Therefore, they hold between them so many directorships in India, and the list is appalling as you can see. Here again, the Bombay Shareholders' Association has exposed that 20 to 25 per cent. of the shares can easily be mobilized for them for the meeting—i.e., they have taken possession of our industry. Let there be no mistake about it. These gentlemen, these few families, these brothers, this fraternity, have taken possession of the industrial sector of our economy and we remain at their mercies and I should have thought that the Company Law should be amended to liberate the country's economy from the octopus grip of these elements that dominate it. Unfortunately, instead of doing that, the hon. Finance Minister speaks in support of them—so much so that even a professor of the Harvard University speaking on business subjects will blush in shame. I need not say anything more on that point.

This is how the concentration has taken place. Don't try to delude us by saying that there are so many shareholders and all that. All those things we know. So many voters are there in the country but the Government has come into your hands and it is you who modify the Bank Award and it is not they who are in a position to enforce it. This is simple democracy. But do not try to bring this simple democracy here, as far as the shareholders are concerned. They are spread all over the country. A company meeting is announced to be held in Bombay. The shareholders

[Shri Bhupesh Gupta.]

live, some in Assam, some in Bengal, some in Uttar Pradesh and so on. Probably, he is a school teacher or in some cases, some small lawyer and so on. Do you think they can go all the way to Bombay to attend this shareholders' meeting there and exert their influence? Not at all. They cannot do so. I know how these gentlemen manipulate their meetings. It is a kind of a conducted delegation that is functioning there. They nod to the movements of the finger of the boss. The whole thing is done according to set lines. This is how many companies are managed and this is a gross scandal that has been going on, and the sooner we probe into the matter and the sooner we unearth the whole affair the better will it be for the country. But this measure this Company Law, does not do anything of that sort at all.

Then, we have the managing agencies and the profits that could be made by them. We are told that the average profit made by them is 27·7 per cent. in 1951-52. That is the average net profit. But we know that the actual profits are much higher. Mr. Parikh is sometimes very frank, because he is one of the lovable capitalists that I have come across. He told us that some of the textile mills, their managing agents, make as much as 50 per cent profit. He gave us the figures. Similarly, he gave us figures for the jute companies also. I thank him for it, because sometimes candour is necessary and he can afford to be a little frank in this matter. I can tell hon. Members that the profits of the big managing agencies are much higher than 27·7 per cent. This is just the figure that is obtained after taking every concern together, the big and small ones. After all, if you add my money which is only a couple of hundred rupees with that of Mr. Parikh and then divide the total by two then we both, he and I become multimillionaires. But that would not be the real position at all, as you know very well. There-

fore we should remember that we are not concerned with only the small managing agents; we are concerned with the bigger ones too. And we would like to find out how much profit they are getting every year. It is most regrettable that in spite of popular demands in this respect, the Government has not thought it fit to compile the necessary facts in order to tell us how much the Birla Brothers, the Singhanian Brothers and all these other 'Brothers' are making by way of profits, whether directly or through their families, whether benami or otherwise. All such facts should have been given to us before we are called upon to discuss the Company Law. Sir, therefore, we would like to tell the hon. Members opposite that we are not taken aback by such figures.

Sir, we have also been told that the managing agents have financed these companies. But where did they get the finances from? May I ask them that? We have not been told about that. As far as their internal finances are concerned, they get it from the exorbitant profits that they make, they are obtained by denying the workers a fair deal. They are also obtained by fleecing the consumers by raising the prices of cloth and other essential commodities that go into the daily consumption of the people. Thus their finances have been accumulated. And out of that, a small amount is given here, now and then, in order to maintain their grip over our economy. Mr. Dhage was very right when he pointed out that out of this sum of Rs. 18 crores, which is alleged to have come from them, they gave only Rs. 10 crores, the rest Rs. 7 crores being guaranteed loans. That is the position. So, at best they can claim only to have given Rs. 10 crores, nothing more. If I ask Mr. Parikh, if you will kindly ask him, Sir, he can fork out Rs. 10 crores here and now. It is almost nothing, that money is almost nothing compared to the money which they are making. This sum of Rs. 10 crores is more of a dole, if I may say so. So, it is not true to say that they pro-

vide one-fourth of the total finances of the concerns. By no computation can you come to that conclusion. What do they do? They occupy a strategic position in the country and at the crucial time, they take possession of the industry and they establish their grip. And then, they go on making profits and devouring, smaller industries, one after another. I do not know how many small industries in the country have been devoured by these managing agents. Sir, it is no accident and it is no surprise that Mr. G. D. Birla, when he went before the Company Law Committee, should have said that the time had come not for starting new concerns, but for amalgamating them under one. Amalgamation, they demand. But we common men, men of common clay, call it annihilation of the small ones in order to get a monopoly. That is the line of big money. And that is something which is encouraged in this measure, which we find being bolstered up in the various provisions, in the measure that we have got before us. Therefore, it is no use trying to deceive us, if anybody tries to deceive us that way, for we know how the managing agents are functioning. I do not know such persons except these two or three gentlemen. Maybe, also a couple of them elsewhere. But I do not know any managing agents from such close range. I however, know what they are doing today in the country. They are interested in boosting up the prices and in maintaining monopoly prices. That is why, it has not been possible for us to bring down the prices of the essential commodities like cloth, sugar and other things so that the standard of living of our people may rise and the people could be better clothed and better fed. These people have made that impossible. And the Government has now the temerity to tell us, how fine they are managing the affairs of the country. Mr. Deshmukh told us they were managing the economy of the country. He may have that satisfaction. But I think, if that kind of management goes on, while the fraternity, may fatten, the people will be

sucked white and there would be few people left in the country to claim a decent life, and a decent standard of living.

There is, then, this system of having bonus shares. We find that 115 applications have been sanctioned and they guaranteed bonus shares to about Rs. 13 crores. That is what we find here. But why have this business of bonus shares? Mr. Deshmukh defends these bonus shares. First of all, let me say that these bonus shares are a device to evade taxation. I hope Shri Parikh will not disagree when I say that the money that goes into the bonus share is not touched by the taxation laws of the country. So first of all, it is cheating the public exchequer. Secondly, this money is utilised in any industry they like to start. Or in the same industry, this capital also goes in and we do not get that money for the development of our economy in order to direct it into channels which are essential for the development of our economy and the reconstruction of the country.

This money is left in their hands. You have then got the depreciation fund, reserve fund and so many other frauds perpetrated by the "big money" in order to remove huge sums of capital from being used in the public interests. I shall give you one example. The Calcutta Tramways Company sets apart every year a sum of £80,000 in the depreciation reserve fund, while it actually requires barely 13 per cent. of that money. Huge funds have accumulated and we would naturally like to know how we are going to get that money for public use. We talk a lot about capital formation and all that; we want funds for the development of our country and yet we allow such companies to set apart huge sums of money for their own tricks, for their own malpractices and for their own profiteering. We are not in a position to utilise these amounts for the development of our country's essential re-construction work. I would like the hon. Minister to

[Shri Bhupesh Gupta.]
enlighten me a little more on this point because there is no provision in the Company law as to how this is to be tackled.

THE VICE-CHAIRMAN (SHRI H. C. MATHUR): Mr. Gupta, you have taken more than one hour.

SHRI BHUPESH GUPTA: I think my capitalist friend also took a lot of time. He has got the millions and he has got the time. I do not have the millions. I can only have the time. I hope that will not be grudged to me.

THE VICE-CHAIRMAN (SHRI H. C. MATHUR): You wanted only one hour.

SHRI BHUPESH GUPTA: These companies should not be allowed to set apart huge sums for their own purposes. Such funds have to be obtained for the development of the country's economy.

We are told that the managing agents will not get more than ten per cent of the profits. Well, even this, according to us, is too high a figure. Nobody should get more than two or three per cent. over and above the bank rates and most certainly not these managing agents who are already rich and who would not suffer in any way by this reduction. When we are talking about planned economy and when we complain of want of resources for the development of the country, it is essential that the funds taken away by the managing agents should be looked into and a part at least of it should be recovered from them, so that we can make use of those funds for the economic development of our country. People might ask, "How will it work?". Supposing there is one managing agent managing one concern; he may have a chain of twenty companies and might be getting plenty of money out of each. This way, concentration of wealth will go on. We want to put a stop to such a thing but the restrictions placed on them in the Bill are not at all effective and they will

not affect them much. We want to go much further and want this system itself to be abolished. Their powers should be drastically cut here and now. This Bill does not do that. We are told that this question will be considered after 1960. They have, of course, taken it for granted that they will be there to re-consider this. I do not grudge them because they are strong today and if they assume that they will be there, they will not be doing any kind of right-walking that way. I grant them that, but why have that time-limit? I know, in 1960 also, you will be faced with another General Election and at that time, having regard to the necessity of election funds, you will not go against the managing agents of the country. We have our suspicions in this matter. We are told that the managing agents have been given a lease of life for another five years only. This, of course, is a false plea. We know what five years is like. The Preventive Detention Act came for one year; it was then extended for another year, two years, three years and so on, it goes till eternity. The same thing will be repeated in this case also. If these gentlemen are there—Mr. Parikh, of course, will be there—they will see to it that nothing is done even after 1960. A *carte blanche* has been given to the managing agents. It is no wonder, because the Finance Minister, speaking in the National Development Council, said that the private sector should be given the green signal. He has given the green signal to these gentlemen and these monopolists are driving headlong without caring for any speed limit at all. I think they have got to be apprehended in the interests of the country. The country cannot afford to give them such lease of life.

SHRI M. C. SHAH: You said that they should be apprehended, but where are they to be lodged?

SHRI BHUPESH GUPTA: If they are apprehended, we can take care of their interest, if you pass them over to us. I would not like to burden you with that responsibility.

SHRI B. K. P. SINHA (Bihar): The hon. Member said that the Marwaris are to be apprehended. I take it, he meant ~~Marwaris~~ ^{Marwaris} including Marwari Communists also.

SHRI BHUPESH GUPTA: I do not suffer from any racial prejudices. Bengalis, non-Bengalis, people belonging to U.P., Biharis, everybody, as long as they are profiteers, must be apprehended. That fraternity should live in a good communal kitchen with better care provided.

The whole thing is a hoax. We have had so many hoaxes perpetrated on us and so, let us not talk about it any longer. There is, however, one thing that I wish to make clear and that is, that Government has capitulated to the dictates and behests of the managing agents. That is why, in the current or in some recent issue, 'Eastern Economist' has come out with very fine things about the Finance Minister. The only regret expressed by that paper is that the Finance Minister was not wise in the beginning. Compliments are being showered on the Government, but they are all from the wrong quarters. I know that the hon. Members who sit there, do not all share Mr. Birla's views so, it is not a party question at all. I am not speaking from a party angle at all. All that I say is that the people, who are directing the affairs of the State from behind, are seeing to it that their powers remain unchecked. The few alterations made here and there are only to bamboozle the people and to throw a little sop to the people, because the people have become tired of this whole bunch of managing agents, the whole bunch of the monopolist class. To assuage them, a certain sop is being thrown at them, but nothing fundamental has been done.

We now talk about secretaries and treasurers. Who are these people? Mr. Parikh remains Mr. Parikh even if he comes in European dress. It does not matter whether he wears a Gandhi cap or a felt hat; he remains

Mr. Parikh. It does not matter whether the managing agents are called managing agents or secretaries or treasurers. They are all one and the same, and we want to strike a blow at the vested interests. I am not pressing forward the claims of the Communist Party in the sense that we want socialism and all that. That is not at all the issue. We had been misunderstood in this matter. I am speaking from the broad point of view, where people belonging to all parties, men who desire the well-being of India and the economic advancement of India can stand together and see that things are set right, that those people who have taken possession of our industry are curbed, thus bringing the industries more and more under public control. I have no doubt in my mind that as long as capitalism remains, monopoly will also grow, but it is possible for us to restrict the operations of the monopolists: It is possible for us to put obstacles in their way; it is possible for us to advance the claims and demands of the people as against the greed and lust for wealth on the part of the monopolists. This was an occasion for taking a common stand; unfortunately, the Government Party—the Treasury Bench—has made it impossible for us to do that. I, however, would not misunderstand them, because I know that they are in support of most of the things that I am saying. Today, what is uppermost in our minds is not socialism; we want to put our country's economy on an independent foundation, having regard to the interests of the workers, the consumers and of the national economy, as against the foreign interests who are operating to our detriment. This law provides for no remedy whatsoever excepting making a few alterations here and there.

THE VICE-CHAIRMAN (SHRI H. C. MATHUR): Mr. Gupta, please wind up.

3 P.M.

SHRI BHUPESH GUPTA: I will finish, Sir.

[Shri Bhupesh Gupta.]

The Finance Minister is lost to a good cause. But I hope the other Members will realize that it is in the country's interests that certain drastic changes should be made.

One point I wish to make clear and that is about the workers' directors. Sir, I am aware of the speeches that had been made from our benches in the other House. An impression was created by certain speeches as if we communists stand for the demand that the workers should be taken into the board of directors of the capitalist concerns in the private sector. I make it very clear on behalf of my party that we do not advance such a demand, not because we do not like our industries to come under the control of the workers. In fact, Sir, we stand for social ownership of the means of production, distribution and exchange. We want the means of production to be owned by the toilers of our country, but here we do not want this kind of practice to be followed, where the capitalists are in a position to take the workers on the board of directors to carry on malpractices under their cover. We do not like the working class to be associated with them. We want, Sir, as I have made it clear, the whole industry to be taken over when the time comes—I am not advancing this claim now. And, therefore, there should not be any misunderstanding in this matter. Our approach with regard to the public sector is however different, because there it is not a question of private capitalists. I know the I.N.T.U.C. has been for it and certain other members from that side and our side also stand for the idea of worker directors on the company Boards. Sir, we know that the working class has had a bitter experience of it. In the Weimer Republic, they took worker directors on the company boards of private concerns and the whole thing was messed and the capitalists utilised the fair name of the working class and put in the front the workers'

directors, in order to cover many of their sins. They did not of course succeed there. I know, similarly, in some other countries, the capitalist class has resorted to such measures. But we do not stand for it in an industrial undertaking where there are the private capitalists. We certainly stand for increased production in the country, but we, at the same time, want to ensure a living wage to the working class, a national minimum wage to the working class as a whole, better conditions, better social security measures and all that. It is these demands for which we fight and we want to get this demand from the capitalist class. Unfortunately, instead of helping the working class in achieving such demands the Government is siding with the monopolists and the Companies Bill is yet another indication of their bias towards the monopolists and they are helping the monopolists to carry on rationalisation and it is most shocking that in order to defend the profiteering of the tea plantation owners in Darjeeling, Terai and Dooars, they shot down seven workers in Darjeeling. Therefore, we should make it clear that it is not our claim at all. Let there be no misunderstanding on that score. We would like to see the day when the workers of our land shall own the industries of our land, but to-day, we would not like you to use such devices to corrupt workers, to try your corrupt practices with the working class. That is why we are opposed to it. After all what can the workers do if they go with these monopolists and sit on the board of directors? The constitution defends the monopolists; the law defends them; the money defends them; privilege, power and everything is on their side, and we do not like the workers to be put there, in order to enable them to bamboozle the public and the working class. Therefore, we would stay outside such a thing. At the same time, we are interested in developing our industries; we are interested in increasing production; we are interested also in meeting the needs of

the public; in meeting the needs of the consumers. Sir, I make this point because many hon. Members seem to have thought that the Communist Party is pressing it. As far as we are concerned, we don't press it; this is not our demand at all. I have some knowledge of All-India Trade Union Congress which does not stand for such things. I know some other people do not share this view, but with them we shall sit down and discuss this matter, because some of those who demand this kind of thing are motivated by very good intentions; there is no doubt about it. But we consider it a trap. Therefore, we do not like to fall into it. That is how I would like to put this matter and set this controversy at rest.

I hope when the Finance Minister gets up, he will answer some of the criticisms that I have made, instead of trying to draw a sort of red herring of what I have said. I have raised no ideological question. Hon. Members will bear me out if I say that I have not raised any ideological question that way. I have given you various facts and figures in order to show how scandalously things are being run, because of certain policies, because of certain institutions and because of certain laws of our land so that hon. Members opposite may apply their mind to it and bring pressure to bear upon this Government, even at this late hour, to change the line they have taken. Take a bold step if you will, the whole country will be behind you. You cannot eliminate the monopolist elements, you cannot crush the power of monopoly. I know it. But you can certainly restrict the operation of monopolists. I know you cannot rise up to the full requirements of the country's economy with such policies. Therefore from the interests of the workers, from the interests of the consuming public, from the angle of national economy, I demand that the whole Company Law approach should be changed and suitable amendments adopted in order to bring it in conformity, as far as possible, with the

requirements of our people and of our economy.

SHRI R. G. AGARWALA (Bihar): Sir, the Company Law amendment, as it has come to this House, is a very lengthy document. Before I give my observations on this amendment, I would like to give you a brief history of the stages through which the Company Law has passed.

Company Law Amendment has been by stages. About 25 years back, the Government decide that there should not be any managing agents to credit institutions, such as insurance companies and banks. Then, Sir, in 1936, came Sir N. N. Sircar's Company Law Amendment. At that time it was feared that the changes brought about by that law would create a havoc in the industrial sector, that the initiative will die, that the enterprise will be killed. But actually, in practice, it did not so happen. Then, Sir, in 1951, when there was cornering of shares of some good firms by different persons, the Government became apprehensive that by the change in ownership of the shares of those big firms and consequently by the change of directors and managing agents, the interests of the shareholders might suffer. So they brought forward an amendment in 1951, that henceforward, any change in directors and managing agents should be with the consent of the Government and where the board meeting has passed any such resolution, it must be confirmed by the Central Government. In the same year, 1951, the Bhabha Committee was appointed, which went into the intricacies of the Company Law. They held a very lengthy enquiry. They consulted every section of society. Labour was consulted; industry was consulted; associations were consulted; economists were consulted and legal advisers were consulted and after a thorough enquiry, the Bhabha Committee submitted their report to Parliament.

Parliament referred their recommendations to the Joint Select Committee. Sir, the Joint Committee made

[Shri R. G. Agarwala.]

some very far-reaching changes, especially in those provisions relating to managing agents and their commission. One important change that the Joint Committee made was, while the Bhabha Committee was for mending the managing agents and not for ending them, the Joint Committee is more for ending them than mending them. The managing agents have been given four years' time—up to 15th August 1960—by which time they should show their work. Rather, they are on trial; and if they behave well, their managing agency may be renewed; otherwise not. This is a very far-reaching change and there are many other changes that the Joint Committee has made. Now, why should so much be said against the managing agents simply because some managing agents did not behave well during the war period but made secret money. Why speak of the managing agents only?

Many section of the society also made secret money, did try to make it, anyway. That is not my question. Some of them made some money, and so the public or the legislators or the Government have become apprehensive and they feel that their power should be curtailed.

SHRI H. P. SAKSENA: But there were many people who were in jail, when these people were making money.

SHRI R. G. AGARWALA: And they are in Parliament now. Anyway, I do not want to blame the Joint Select Committee for having made these far-reaching changes, but I would rather advise my friends of the business community not to become too panicky about these changes, and at the same time, I would request the legislators to be more realistic. They should not give their consent to an Act which is too lengthy and which becomes very difficult to be enforced. The Company Law, as it stands today, is comprehensive enough and there are penalties prescribed in it. But do you feel, Sir, that it has been administered properly as it should have been? The Indian

Penal Code is there, but do you feel that its presence has reduced the number of criminals? Certainly not. The Income Tax Act is there, under which Income Tax Officers have been vested with so many powers that they can play any mischief with the assessee, and they are actually doing so. The honest.....

SHRI M. C. SHAH: No mischief.

SHRI R. G. AGARWALA:assessee is being harassed.

SHRI M. GOVINDA REDDY: They are not in a position to discover mischief.

SHRI R. G. AGARWALA: If the hon. Minister can find time, I can give him instances where the honest assessee has been harassed.

SHRI M. C. SHAH: I would invite such instances rather than mere allegations. They do not do any mischief. They just try to get the money that is due to the Government.

SHRI R. G. AGARWALA: I agree totally with the hon. Minister that they should try to get the due money, not the harassment money or undue money. That is what I wanted to point out to this House. There are such vast powers in the hands of the Government officials, that sometimes it becomes very difficult for the honest persons to satisfy them. So I would request the legislators, here, that any advice coming from business quarters should not be thrown away in the waste paper basket on the assumption that it is coming from vested interests. The advice from the business quarters can be more useful, because they are the persons who will be affected by these changes.

Now, Sir, I come to the most critical chapter of this Bill containing clauses 324 to 377, relating to managing agents. Before going to the changes envisaged under these provisions, I would like to ask the House, 'what is our need at the present moment?' Our present need is to improve the living standards of our people, to improve

their living conditions and to give full employment to everybody. But are the contemplated changes likely to lead us towards those objectives which we have in view? Will these changes bring about more industrialisation of the country or will they discourage industrialisation? Whether more industries will be established after this, or whether less industries will be established, is the criterion. Every change that is proposed should be examined in this perspective and judged by this criterion. I find that the changes are not in the interests of the country at the present moment. The managing agency system has been working for the last 125 years. They have to their credit, establishment of key industries like cement, sugar, coal, iron and what not. So it should not be thought that the managing agents are superfluous as some people think. Some hon. Members on the other side seem to think that the managing agents have become superfluous, they are useless for the society and that they have no work to do. I do not agree with them.

SHRI BHUPESH GUPTA Not only superfluous, but they are poisonous.

SHRI R G AGARWALA They also feel that big companies can be started by anybody and that to start a company no initiative, no risk, no promotional service is required. This is absolutely wrong. On the contrary, the managing agents have to do so much not only at the time of promotion but also for the day to day management of the company. Clauses 324, 326 and 330 impose restrictions on the managing agents that their term of office will expire on 15th August 1960, that, in future, the appointment of the managing agent will have to be with the consent of the Government, and that the Government can notify at any time that such and such an industry will have no managing agents. Sir, I do not think, by imposing so many restrictions, we are going to encourage the industrialisation of our country.

Then there is clause 332 which says that no person can be managing agent of more than ten companies. I do not know why this clause has been introduced. Perhaps this clause has been introduced so that economic power may not be concentrated in the hands of a small group, but when the Finance Minister has already agreed that a person having a sugar mill, can start a paper mill or a cotton mill, then also the economic power will be vested indirectly.

SHRI M C SHAH The Finance Minister has not agreed.

SHRI R G AGARWALA He has agreed this morning that he has no objection.

DR. P SUBBARAYAN (Madras) Provided there is one managing agency.

SHRI R G AGARWALA. Yes, under one managing agency he can.

Then, I come to the clause relating to remuneration to managing agents—clauses 198 and 348. They say that it cannot exceed eleven per cent, or minimum may be fifty thousand rupees. But, how can this sum of fifty thousand rupees be applied to every company equally? I think it should be tagged with some paid-up capital. Up to a limit of Rs. 25 lakhs, this Rs. 50,000 is a fair figure, but beyond that one per cent for each lakh of the paid-up capital should be added so that the commission or the managerial remuneration may be attractive. Then, Sir, this eleven per cent, including all management expenses, or ten per cent, as the case may be, does not give the proper incentive one should have. After all, nobody works, except very few, without incentive. Incentive is the motive power that makes a man work hard. So, why reduce this incentive from 28 per cent to ten per cent all of a sudden? Will it encourage the industrialisation of the country? The private sector has been allotted a great part to play in the next Five Year Plan. Let them play well. Why curtail their power and initiative? That is my submission. I would like to read the paper written

[Shri R. G. Agarwala.]

by Shri J. R. D. Tata, which will clearly show what the big businessmen are thinking and how they are feeling in regard to these changes.

THE VICE-CHAIRMAN (SHRI H. C. MATHUR): You may refer to it, only quote.

SHRI R. G. AGARWALA: He says:

"Apart from the fact that there is, in my view, nothing morally wrong in the yearning of individuals to better their own and their families' living conditions and to seek material reward and financial security in return for hard and productive effort, a remarkable aspect of the disparagement of material incentives and rewards is that, while they are regarded as unobjectionable in the case of the peasant and the worker, they are sought to be withheld from the professional man, the administrator, the manager, the entrepreneur and the investor—the very man from whom we expect the initiative and leadership required for the success of the country's plans of economic development. In their case incentives and rewards are sought to be replaced, it seems, only by a missionary zeal to serve the community

It is true that many of the men who today lead the nation have dedicated their lives to the country's advancement and are motivated by a noble ideal of service. But, with great respect, I submit, it is unrealistic to believe that more than a minute percentage of the people of the country in any walk of life can be expected wholly to eschew personal interests. For the vast majority of the people, the removal of material incentives and rewards will merely act as a disincentive, and lead to a reduction of effort and efficiency, and to an increasing tendency to let the other fellow do the job. We should face the fact, whether we like it or not that most men will be driven to hard work only by material reward."

THE VICE-CHAIRMAN (SHRI H. C. MATHUR): Please wind up now.

SHRI R. G. AGARWALA: Sir, in my opinion, the incentive given is not enough, neither the minimum of fifty thousand, ^{but} ~~not~~ the maximum of eleven per cent. This minimum should correlate with the paid-up capital. Say, up to Rs 25-lakhs of paid-up capital, this Rs 50,000 is reasonable; but for each lakh above that, one per cent. more should be paid in the initial stages, because large-scale industries take years and years to establish and, in the beginning they have to incur losses. And hence, this Rs. 50,000 is the only expense which the managing agents will be getting by way of managerial remuneration. So, Sir, I will recommend to the Finance Minister to consider this aspect.

Mr Kishen Chand pointed out one case yesterday that a company with a paid-up capital of over Rs. 5 crores should not engage any managing agent. I do not know what was his basis of argument, where the capital is going to come from?

SHRI KISHEN CHAND: I shall explain that when the amendments come.

SHRI R. G. AGARWALA: Who will get the capital; who will get the managerial staff? Anybody and everybody he says, any seven men can join together and form a company. I do not agree with him. If it were so easy, then I think most of the Members of Parliament would be running companies rather than come here.

SHRI KISHEN CHAND: This company is already running!

SHRI R. G. AGARWALA: And there would not have been any need of so rigid amendments to this Company Law. Companies are run by an organised group of individuals who form managing agents. They put the initiative, capital; they do the prospecting work, day-to-day management, etc.

Then, he also pointed out yesterday about the loan. The banks give the loans. The Finance Corporation gives

the loan. We have nothing to worry. He did not realise that the Finance Corporation may give the guarantee of the managing agent. But so far as banks are concerned, they take security first, and not only the guarantee of the managing agent. Instances are not rare, where, in order to save the company, some go to the banks and deposit the valuables with them. So the work of the managing agents should not be discredited in such a light manner. I agree with Mr Parikh who says that the definition of manager should be more clear. Otherwise, there will be changes in the designation of managers. Then, Mr Bhupesh Gupta was pointing out about bonus shares. He says that the Central Exchequer is being cheated. I do not know how he came to that conclusion. The taxes on reserve have already been paid, and is already paying out of bonus share are out of reserves. So, the question of the Central Exchequer does not arise at all.

SHRI BHUPESH GUPTA The hon Member will note the Finance Minister's speech. He is thinking of putting tax on such

SHRI R. G. AGARWALA Then, Sir, Mr Kishen Chand pointed out that there should be a labour director on the board of directorate. At one stage, he pointed out that labour is illiterate and at the other stage, he pointed out that labour should be there on the board of directors, in order to advise the managing agents or the board of directors. I do not know how these two statements can correlate.

SHRI BHUPESH GUPTA I do not know, Sir, since when the Parliamentary Secretary has taken charge of managing companies.

AN HON MEMBER You have discovered very well.

SHRI R. G. AGARWALA In the end I support this Motion. Thank you.

DR P. SUBBARAYAN Mr Vice-Chairman, I think this Companies Bill

has had a long history and as was already pointed out there have been several Commissions also the Bhabha Committee being the last one, on the report of which this Bill has been framed. It was considered by a Joint Select Committee of both Houses for over a year, before they came to a final conclusion. I think, one must pay one's ~~good~~ tribute both to the Finance Minister and to the Chairman of the Select Committee Mr Pataskar for the labour they put in in shaping this Bill. The Bill came out of the Select Committee with several changes made. Since the Finance Minister introduced this measure in the Lok Sabha, there have been other changes made on the initiative of the Government because there has been a feeling among some people, both among the managing agents as well as the public that something has been done and what has been done will not lead to incentive. My friend who spoke before me talked of the fifty thousand limit that is put in with regard to the remuneration to be paid to managing agents when the company works at a loss, as it would, during the initial stages. I think my hon friend, the Finance Minister has made the present provision to give more, if they found it necessary for the management of the Company. I do not think the Government could have gone further, considering the scheme they have had in regard to this Company Law Amendment. They have also gone further with regard to the subscription to charities. They have raised the amount which was finally settled by the Select Committee, because they felt perhaps that there was some restriction which could be eased. But on the whole I think this is a very satisfactory Bill, as criticisms that have come both from the right and the left have, on the whole, showed that, in a long measure, the step taken has been correct. We have Mr Bhupesh Gupta on the one side, who would like to see everything taken by the State because, after all, he stands not for socialism, but for State capitalism.

[Dr P. Subbarayan.]
which is the only kind of socialism
that he understands.

SHRI BHUPESH GUPTA: What kind
of socialism do you understand?

DR P. SUBBARAYAN: I understand
something different something better
than you do. But after all, there are
methods of achieving the ends we have
in view, either by State capitalism or
by the socialism that the party I have
the honour to belong preaches, which
perhaps my friend Mr Bhupesh Gupta
will never understand, because he
belongs to the society of Marx

SHRI BHUPESH GUPTA: You also
belong to a Society.

DR. P SUBBARAYAN: I think the
hon. the Finance Minister has devoted
a great deal of time to the measure
What is more, I know how hard he
worked during the Select Committee
stage He was always present when
he was required and always guided
the Committee by pointing out what
were the principles he had in view in
regard to this Amendment We have
heard so much against the managing
agents. I hold no brief for them
because I am not a managing agent,
neither do I ever hope to become one.
because I have not the wherewithal to
do it But I think, they have had
their share in the industrialisation of
the country which cannot be denied
I know, there is no managing agency
system in other countries But it
came into this country because that
was the one method of getting capital
for enterprises that were being floated
We have no such thing as is known
in the West, of capital formations and
where you can go and get the capital
I think Mr Bhupesh Gupta does not
know that all these managing agents
have suffered a good deal, in order to
float a company and keep it on its
legs; because they are entrepreneurs
who understand business and who also
know what to do in business manage-
ment But I am sure, they will agree

with me that the time has come when
certain amount of control has got to
be maintained by the Government
over these agencies. This has come
because there are black sheep among
them, which they will themselves
admit, which has led to a great deal
of mischief, if I may use such a word,
during the time when large profits
were being made because of war
conditions. If only these people had
been careful to maintain higher
standards of integrity. I do not
think that such a thing as has
come through this Bill would have
come But I think the Finance Minis-
ter has been fair enough to explain
that no doubt, these powers which are
being given to the Government in the
matter of control of companies, will
be exercised with discrimination, as
well as discretion—if I remember, that
is what he said in this House I am
sure, the businessmen understand that
the Government do not want to stand
against industry going forward in this
country As they have themselves
maintained, there is the private sector
and they want to do everything for
the growth of the private sector
Therefore, you will understand that
this measure does not in any way
restrict the private sector, acting in
its own capacity. But I have one
doubt which I am sure the hon the
Finance Minister will clear when
replying to this debate. All I say
is that if you want the private sector
you should not manacle it, manacle it
in such a fashion that they will not
be able to function with the limita-
tions that you have placed on them.

You must so amend some of the
clauses as to give them, liberty to act
within the sphere you have set for
them, if you really want our indus-
trialists to function properly Mr
Bhupesh Gupta looks at me; I know,
he will not agree with the statement
I am making, but I am interested more
in the advancement of my country
than in any other thing and, therefore,
I am asking the hon. Finance Minister
to see that the restrictions that have
been placed are not so tight that the
person concerned may not be able to

act. No doubt, I am sure, the Government will exercise these restrictions with "discrimination and discretion", as he has mentioned, but still in spite of all the goodwill in the world it might so happen that the rope round the neck may make him unable to work. Therefore, I would like the hon. Finance Minister to see, whether there are any sections—I have not studied them fully—which will go against the advancement of the private sector in this country.

He has rightly pointed out that as far as the Government companies are concerned, the Government can decide for themselves as to the restrictions that should be placed on them. He has brought in legislative control to the extent that for thirty days whatever they may decide will be placed before this House and the other one. If either House pass a resolution saying that they do not agree, and if both Houses agree to the restrictions they want,—even with regard to Government companies—that will become the law of the land. To that extent, the Government companies are not different from private companies. But all the same, I am sure that even my friends who belong to the private sector will agree that there are certain things which a Government can do and which a private agency may not be able to achieve. But at the same time I would like to give this warning to the Government that business is very different from administration and administrative technique is different from business technique. I am sure, as the industrial sector of the Government increases there will be demand to bring in businessmen as well, because their advice and their idea of management will be of help even in Government industries. And I am sure, that is what the Government have in mind when they talk of enlarging the public sector.

There are other matters which have been referred to by Members opposite. But, as I said, it is because I am in agreement with this Bill, because both—those who think their powers are

being taken away and those who think that these powers are not being taken away at all—wish that the Government have followed a middle course which satisfied both. They think, the Government have been merciful. I think that is really why I feel that this measure is a good one.

[MR. DEPUTY CHAIRMAN in the Chair]

A great deal of attention has been paid by the Select Committee and those responsible for putting it in such a shape that we shall see whether the object they had in view has been achieved or not. The Finance Minister stated in the other House there is always power in the legislature to amend the measure further, when they find that there is some lacuna in the measures that they have adopted.

I am sure, the Finance Minister deserves well both of this House and the other one, for the great labour he has devoted on this measure, and I congratulate him on the work he has done. I support the motion moved by the Finance Minister.

SHRI B. P. AGARWAL (West Bengal): Mr Deputy Chairman, my first reaction on this Bill is that this is a very cumbersome and complicated piece of legislation as it contains over 650 Clauses and sub-clauses. It may be quite easy for big companies with ample resources to manage their working according to its regulations, but I doubt whether all companies, with little resources, will be able to carry on efficiently in the years to come. Sir, the full knowledge of the Companies Bill is, I think, not very easy even for competent lawyers. For an average layman who aspires to run a company or a small industry it will not be possible to have the resources to engage a whole-time lawyer so that he may escape the provisions of the law or he may manage the affairs in accordance with the different requirements under the Companies Law. So, I think, this is a very great difficulty. Although the hon. Finance Minister has explained that he is bringing out a booklet in which the Companies Law

[Shri B. P. Agarwal.] made easy for the layman will be published. There are booklets on the Income Tax Law and other laws, but is it so easy for the common man to understand and follow them? So I think, it will be a difficult thing. The big people and big businessmen with ample resources may engage whole-time lawyers and competent people to advise them in the application of this law, but I doubt whether a man with a capital of Rs. five lakhs or Rs. ten lakhs, invested in small industry, will get the advantage of such advice and guidance.

SHRI R. B. SINHA (Bihar): Do you want to scrap all this?

SHRI B. P. AGARWAL: I do not say that. I am expressing my fears. I do not ask to scrap it, but ways and means must be found to bring things in an easier way. That is my feeling which I am putting before the House for consideration.

My first fear is that this measure will discourage the growth of joint stock companies in future. Of course, those who are resourceful will manage, but what we want is that more people should come in to organise such sort of industries in joint stock enterprise. We want the masses and a large number of people to come into it. And there, I am afraid, this will discourage the formation of small joint stock enterprise and, thereby, the industrialisation of the country, under the private sector and the next Plan, which we are thinking.

Sir, one of the objects before us was to reform the managing agency system in which, with the growth of the industry and with the coming into existence of a number of companies during the wartime and between the course of the two wars, had developed certain vices. To the extent, defects or vices have developed, it is desirable that they should be removed and we support the Government. But my feeling is that this goes far out in that direction; it does not only reform the

managing agency system but to my mind it cripples it. The Finance Minister had spoken in the other House, that this will remove its teeth and make the system inoffensive. I feel, it will not only remove the teeth but also its ribs and bones, thus making the system unworkable.

SHRI H. P. SAKSENA: On the other hand, if one set of teeth is removed the fangs will grow and there will be more poison in future.

SHRI B. P. AGARWAL: The fact, Sir, is that this system, in spite of its defects, has been retained, because we have not got any other equally tried system which can play its part in running the private industries efficiently. Recently, Sir, it has been suggested that secretaries and treasurers should be brought in in place of the managing agents. But those who are opposed to the managing agency system, I think, they are opposed to the treasurers and the secretaries system equally. They are opposed to the directors' management, and if I am not mistaken, they are opposed to any management under the public sector also. They do not see anything good anywhere. To them everything is dark, and wherever they go, they see nothing but darkness. But if we have to run our industries, we must have a workable system, and to that extent, I think, the managing agency system has been a well-tried system, and you cannot condemn it wholesale on that account.

You can see, Sir, the achievements of the managing agency system. The steel industry was founded by the house of Tatas. In the matter of Textile mills, the country was at one time entirely dependent on foreign cloth—were depending on Lancashire, Japan and other countries—but it was the managing agency system which created the industry and made the country, to a very large extent, self-dependent in the matter of its cloth requirements. At one time, we depended entirely for our sugar requirements on Java and on other countries, but it was the

managing agency houses which brought about more than 150 sugar mills in India and which made the country self-sufficient in the matter of its sugar requirements very largely. I do not deny that some protection has been given, because without giving protection, it was not possible to make any headway

SHRI KISHEN CHAND: The consumer has paid.

SHRI B. P. AGARWAL: The consumer has no doubt paid. But even if you have the labour and everything else, there should be somebody to organise, somebody to put all heads together. Then, Sir, similar is the case in the matter of jute. All these big industries owe their existence very largely to the managing agency system, and nobody can deny that. I do not mean to say that if there are defects and shortcomings, they should not be removed. We must take all measures to remove the defects and the shortcomings that exist in our managing agency system. But we should not take any measures in order to make it incapable of working. And Sir, my feeling is that the provisions in the Bill are so stringent that probably it will be difficult for the managing agency system to survive in the years to come.

Then, Sir, there is another thing also. If we look for perfect goodness, can we find it in any system? That also has got to be considered very carefully. Even in our public offices and Government departments, you cannot find only virtues, and we do come across certain vices and certain shortcomings which are brought to light by our Public Accounts Committee. And thereby we do not come to a conclusion that because of these defects and shortcomings we should abolish all the Government offices. That way, we cannot run the Government. We must have several departments; and we must have various offices to do the work. And if there are any defects here and there, then

naturally, we should see that they are removed and put right. But we cannot think of abolishing those departments or those offices for the reason that here and there some shortcomings have been discovered. The same is the case with regard to the managing agency system. If there have been certain defects here and there, that does not mean that the managing agency system has not done any good at all to the country, and therefore, it should be abolished. To my mind, Sir, it has done immense good. Some vice is bound to come in where there is wealth and power. This is the law of nature which can never be avoided. But we should always take certain steps and provide certain safeguards, in order that these shortcomings and defects do not recur.

The best safeguard, Sir, to my mind, which can be found helpful, is that there must be an active body of shareholders. Unfortunately, in our country, our shareholders have remained up till now in a dormant state. There have been no organisations and there have been no efforts made to organise them in a proper manner. For some time, in Bombay and in certain other places, certain associations are being organised, which have created some sort of consciousness. I think we must create some consciousness amongst our shareholders towards their rights, and if they are conscious of their rights, I think a good deal of trouble will disappear. So far, our shareholders have not been conscious of their rights, and therefore, certain people have taken advantage of their ignorance or of their helplessness. But if the Government comes to their help and creates a sort of consciousness among them, then I feel, this difficulty will very largely vanish. And I think, the best guarantee for running the companies efficiently lies in organising the shareholders in a proper manner.

I now come to the question of the minority interests. One of the defects which has been very obvious in dealing with the companies' affairs is that

[Sari B. P. Agarwal.]

the minority interests have been overlooked. And we find that various safeguards have been provided for the minorities in this Bill. To a certain extent, those safeguards are desirable, and we must support them. But I feel, Sir, that this has been overdone. If the minorities are given the right to refuse the right of the majority, then I think, Sir, we are creating a bad situation. We know, Sir, that even in the Hindu joint family system, if one member of a family takes an obdurate line and on obdurate decision, he can spoil and mar the future happiness of the whole family. Similar is the situation which we are creating here in the matter of the companies by providing so many clauses regarding the minorities, I mean the shareholders. And when we provide for special resolution at almost every stage and almost for every action, then I think the majorities are reduced almost to nullity. And I think, Sir, that will be very hard on the majorities. And in fact, we will be sacrificing the majority for the interests of the minority. And that is not desirable.

Then, Sir, Mr. Parikh had explained something about the role of managers and the definition which has been given in respect of managers. I also feel on the same lines in that respect, although the Finance Minister has explained that the managers will be only those persons who substantially control the business of the companies. I think, Sir, that the definitions are not so very clear, and everything may depend on the interpretations which may be put by the authorities. It is, therefore, desirable, Sir, that the definitions should be made very clear. You know, Sir, that in the big industries we have all sorts of managers. We call them General Managers, we call them Technical Managers, and we call them Managers in charge of this section or that section. Now if these managers are to be taken as part and parcel of the managing agency, then I think they will themselves be taking whatever remuneration you provide

for the managing agents. And the managing agency will be left with nothing. Therefore, Sir, I think this definition needs to be made very clear so that there may be no confusion on that account.

4 P.M.

There is one aspect to which I would like to draw the attention of the hon. Minister. There are companies in India which are registered in India but which are carrying on their business operations outside India. With the division of the country into India and Pakistan, there are good many industrial concerns which are left in Pakistan with their owner companies in India. The role of those companies is very difficult. The managements of these companies are finding it extremely difficult to look after the interests of the shareholders in the circumstances they are placed and I feel that some special provision should be made and better facility should be allowed to the managements of those companies so that they may not be put in the same category as we have put the other companies. If the same remunerations and considerations, which are allowed to the companies operating in India, are allowed to those companies also, then I think, nobody will be interested to look after the interests of those companies which are there. Even for anybody to go to Pakistan to run the industries is a problem and if they are to struggle there, it is almost taking out one's breath away. Large amounts of capital and crores of rupees are still in that country and I think the hon. Finance Minister will be pleased to look into this matter carefully because it is an essential matter.....

PROF. G. RANGA: What is it that you want the Finance Minister to do in order to protect these people in regard to investments in Pakistan?

SHRI B. P. AGARWAL: I have already tabled an amendment and, at the appropriate time, I will be able to say more on that at a later stage. But this is the general expression of my

views which I am placing before the House.

Now we have provided under this Bill various clauses which empower the Government about a better supervision of the administration of the Companies' Act. This is a move in the right direction. One of the reasons which was responsible for the bad management of the companies was that practically they were left to themselves. There was no supervision and the Finance Minister was good enough to admit this in his speech elsewhere that up till now practically, there was no supervision and, now, a special department has been organised to look after the companies' affairs. I think, that has been a move in the right direction. Vast powers have been vested, under the Bill, in the Government. All that is needed is that these powers should be exercised with great care and sympathy. Dr. Subbarayan was speaking just before me and he explained that business administration and Government administration are two quite different things and they cannot be in the same line, and I think he was quite right. Running of Government offices means following a good many rules and red-tapism but you cannot afford to have those things in business administration. If this special section which has been created for the administration of the companies is to be run on proper lines, I think, it is necessary that this should be run with an insight into business conditions. Then only it will be able to discharge its functions in a proper manner. With these words, I support the Bill.

PROF. G. RANGA: Mr. Deputy Chairman, I am not a supporter of the managing agency system. I have never had so much faith in it. Even when this Company Law Amendment Bill came up for discussion some 18 years ago, I expressed the same opinion. Therefore, I took the same stand before the Joint Select Committee also, but in the end the Joint Select Committee came to the conclusion that we have to get on with this managing agency

system in its attenuated form for some more years. I agree with that conclusion of the Joint Select Committee. Why do we agree? We are now going to inaugurate our second Five Year Plan period and our programmes. We have agreed or we have found it necessary to leave a large field, indeed, of industrial development for private sector and in this private sector, who are the people whom we have today to provide not only capital but also managerial capacity, experience and also win the confidence of the shareholders in the country? Not necessarily the managing agencies alone or the managing agents alone, but we cannot say that the managing agents have no role to play. They have established themselves in this country, rightly or wrongly. They have achieved a position in our industrial life and they have won the confidence of certain sections of our own shareholders and monied people in our country. Whatever might have been their defects, their failures and the evils that have come in their train, they have today the confidence of certain sections of our investing public. Are we going to make use of these people or not? Would the national interests be better promoted if we refuse to allow these people to function any longer and ask them to vacate their offices, here and now, or even after two, three or five years hence and then, come to depend upon various other people—upon others anyhow—the non-managing agencies—if these people are willing to agree to work, not as managing agents, but as mere managing directors etc.—will it be possible for us to depend upon such a machinery? Have we got it? These are the issues that presented themselves before us in the Joint Select Committee. They are there before us even today. Now, it would be another thing if I were to say or anyone were to say, that we will depend upon these managing agencies alone for the running of our existing industrial enterprises and also for the industrial enterprises that have got to be encouraged to come into existence, during the next few years, in order to satisfy all the investment

[Prof G Ranga]
and all management that we want for the advancement of private sector. I don't propose to take up that line at all. I only wish to say to the House that we should be prepared to make use of this managing agencies to the extent that they are available today, and in addition to that, to explore possibilities for encouraging this new institution that is going to come into existence—treasurers and secretaries? managing directors, directors and managers—encouraging these people to come more and more to the fore. to win the confidence of the people with the help of the Government and the shareholders, organise new companies, come to manage some of the older companies also, and in that way contribute their share towards the industrial development of our country. When we are prepared, in this manner to give every possible encouragement and scope to new people, to new institutions of industrial management, to come and aid us in our laudable, in our urgent tasks of industrial development, why should we, now, pick up a quarrel with our Finance Minister and the Government for their non-readiness to get rid of the institution which is already there, and for their non-readiness also to produce as from a magician's bag, all the necessary managerial talent and enterprise, institutions and organisations that are needed for the management of not only the existing industrial enterprises but also for the organisation for the development and management of the new institutions and enterprises that the country is so very badly in need of for its economic and industrial developments. That is how I am inclined to think about it.

My hon. friend Shri Kishen Chand was finding fault this morning with the Government for having provided so many criminal clauses here, so many penal clauses in this Bill and

SHRI KISHEN CHAND: I said "supervisory clauses".

PROF G. RANGA: Very well. They may be supervisory powers, and in that way he said, Government was

making the life of the industrialist impossible and they were making it possible for the Government agents or officers to become dictators, to become corrupt and try to exploit the industrialists. There is very much to be said for what my hon. friend has stated, provided the managing agent, first of all, has everything in his favour and has delivered the goods to the entire satisfaction of the country; also provided that the industrial entrepreneurs who would be coming forward to organise new enterprises could also be trusted to behave with a full sense of public spirit and could be expected to be entirely altruistic. But he himself, in the course of his discourse yesterday, made it clear that the Government should go in the direction of socialist organisation of society, that the Government should go in the direction of socialisation.

SHRI KISHEN CHAND: My hon. friend has not perhaps understood the counter-checks that I have proposed, in place of the present provisions.

PROF G RANGA: My hon. friend has in his mind some counter-checks of his own conception. But here are the counter-checks of the conception of the Government, incorporated in this Bill. He quarrels with these counter-checks and he wants to adopt some other counter-checks he has in his mind, which probably he will give notice of in the form of amendments.

SHRI KISHEN CHAND: I mentioned them.

PROF G. RANGA: But I am inclined to look at it in this way. Whatever may be the power, financial, social, political or otherwise, of these managing agents, and their supporters in Parliament or outside, they will all have to come to the Government from time to time, whenever their managing agencies have to be renewed, whenever they apply that their managing agencies should be allowed to function in such and such industries, whenever their own directors have got to be reappointed, whenever they have got to increase their shares or stocks

or any of these things for all that, they have got to come to the Government and they have to give a proper account of their behaviour. They have to give a proper account of their conduct of their business, and in that way, you condition their power, their autocratic power and you make it impossible for them to play the mischiefs that they have been doing in the past without let or hinderance. You make it necessary for them to justify their conduct of their own business. The Government also has an opportunity to see whether there should be a managing agency or not, in such and such an industry. Even now, in those industries where this system predominates, Government will be in the position later on, at the proper time to say, "Yes from such and such date, we do not want the continuation of the managing agency in these industries." And in the case of the number of new industries which are going to be brought into existence, it would be open to Government, even now or later, to say that they do not want any managing agents to come there at all, that the secretaries and treasurers would come in and organise the industry, or the managing directors would organise them, or the board of directors would come and organise them. Government will be able to say that. It would then be open to my hon. friend Mr. Agarwal and all these capitalists to go to the Finance Minister and say, "Please do not put this ban. We have behaved ourselves properly. We can give proper guarantee of our future good behaviour. So be pleased to let us go on for another five or ten years. Do not put a ban upon our functioning as managing agents." In that way, we are arming the Government with the necessary powers, powers which can be against these magnates against these managing agencies. So, should I not be satisfied with powers like these? Am I to be distrustful of our democratic government? Yes, I stood there, not so long ago, and I would have taken the same stand as I do now, if I was there still. When I was called to the Joint Select Committee, I went

there on behalf of myself. And from that position today, I am here to defend the Report, and also the Bill that has come out, that has emerged from that Joint Select Committee, although I moved from that place to this place. These powers we have given to our Government.

Now, let us, for the sake of argument, consider that the managing agency has proved to be so troublesome, so mischievous, so treacherous and so deceitful as to have incurred the displeasure and also to have lost the confidence of the shareholders. If that be so, then I ask, why is it that none of the managing agencies is being dismissed? We must first of all have some answer to that question. If they are ...

SHRI H. P. SAKSENA: Who is to dismiss them?

PROF. G. RANGA: The shareholders.

SHRI H. F. SAKSENA: But they have not the power.

PROF. G. RANGA: I am coming to that. Therefore, because the shareholders have not the power to dismiss them, should we not now ask the Government to take steps in order to strengthen the shareholders? That is where I welcome the suggestion made by my hon. friend Mr. Agarwal, who spoke just now before me, and I hope the Finance Minister and his advisers will think about it and find ways and means by which even apart from this Bill, it would be possible for them to strengthen the shareholders; whether any institution has got to be brought into existence with finances placed at its disposal, the company, for improving the lot of these shareholders in the country, in all the joint stock companies, or whether some kind of a levy should be collected from the profits made from each one of the companies and in that way place funds at the disposal of the shareholders of that particular company. They have got to think on some such lines so that the shareholders could be helped.

Anyone can ask, "Why is it that the Government has not done anything at all in this direction or in some other

[Prof. G. Ranga.] direction?" Well, I can answer that question. Government has not been completely unmindful of this matter, not only this Government but even previous Government also. There are always the majority of the shareholders and there are the minority of the shareholders. And on behalf of the majority, the managing agent functions and the minority is being suppressed or oppressed or neglected. So something has got to be done in order to strengthen them. And something definite and tangible is proposed to be done by this Bill.

SHRI KISHEN CHAND: Is it to be centralisation or decentralisation? Do we want power to be vested in the Government or in the shareholders?

PROF. G. RANGA: I don't quite know what my hon. friend wants; probably, he wants to have it both ways or something like that. He himself said that shareholders should be allowed to look after themselves. But all the time the trouble has been that the shareholders have not been able to look after themselves. Therefore, power has got to be vested somewhere and the Finance Minister comes with this Bill or rather the Select Committee comes to the House and says, "Vest the power in the Central Government. Let them nominate some of the directors on behalf of the oppressed and suppressed and neglected minority. Well, is there anything wrong in that?"

Sir, I see you move to the front and I get the impression that you are going to ring the time-bell; but I am afraid, I want plenty of time.

MR. DEPUTY CHAIRMAN: You need not be afraid. You please go on.

PROF. G. RANGA: Sir, I never look at the clock, I only look at the eye of the Chair.

The third point is this: These people have committed so many blunders. Should we give them a free field for exploitation? My friend was saying that we are having penal provisions and that every small company will be obliged to have a lawyer resulting

in huge expenditure. I am completely in agreement with him. This is going to cost plenty of money and give plenty of scope for employment, I suppose, this is one of the ways by which my hon. friend, in a surreptitious manner, is going to provide more employment for the educated unemployed lawyers. This is going to make it necessary for every company—and especially so every managing agent—to arm itself with at least one lawyer, and if possible, with a number of lawyers; not that they should be enabled to play mischief but that they should be enabled to keep out of the mischief of this Bill. I have never been a managing agent or a director but if I were to become one such, I would be afraid of even my shadow. I would be afraid of giving any power to anybody who drafts anything for me to sign. I do not know by which signature of mine, I will get into trouble. That is all true but then, why are we having all these. That is my answer to the friends who want to do away with this system immediately. If the managing agents had been behaving very well, if they had been angels, as they have been said to be by some of our friends on this side, if the Government really had been in favour of the managing agents and had sold away its soul to the managing agents, then Government would not have found it necessary to provide all these clauses. It is because Government itself is not satisfied with the managing agents by and large it is because it has been found that the managing agents have been behaving in a very queer and unpatriotic manner, it is because their ingenuity to evade law and also to play mischief with the shareholders have been admitted, it is because of all these factors, Government has found it necessary to provide for so many penal clauses. Is there anything wrong in it? But then, it does not mean that every managing director is going to get into its claws. Some friend here mentioned about the Penal Code. Am I being afraid of it? We are all citizens of India but are we afraid of it? The Penal Code is not intended for particular criminal persons only, it

applies to anyone who may possibly become a criminal. That way, every one of us will have to be afraid of the Penal Code. We will be afraid of taking even one step lest we should come within the mischief of this Code. Nevertheless, how many of us are thinking of the Penal Code in our day to day life, in our civic life? Similarly, any managing agent, who is really keen on behaving well, need not bother about it, excepting that he has got to be careful to see that his agents do not get him into trouble. So long as he behaves well, he will not be troubled, as the hon. Finance Minister has already said. The hon. Finance Minister has given an assurance; it does not mean that only this Finance Minister will be liberal and the other Finance Ministers will be rigorous. When one Finance Minister gives an assurance, it should be considered good for all Finance Ministers. This Bill, when it becomes an Act, is not going to be used as a Damocles Sword in order to destroy or degrade or insult any honest, decent and patriotic managing agent. It is because so many of these people did not behave well that these clauses have been provided here. Therefore, I hope the House will not give much credence or weight to that complaint.

What are the industries in which we should not have any managing agents? Left to myself, if I were in the place of the Finance Minister, I would not have managing agents in the industries which do not have that system today but there are certain conditions attached to this. I would do this, provided I am able to organise a college or an institute in which we may get a number of people trained in business and industrial management. That way, all the people who come up for training will get enough training and they can be depended upon to provide the necessary managerial staff. The point, however, is, "Can I do it here and now?" However much I am anxious to do so, I cannot do it. I need some time. How long is that to be? Is five years too long a period? You

want five years for medical studies. You want four five years for engineering studies; that being so, for learning the intricate mechanism of industrial and commercial management, one needs very easily five years. Even in Soviet Russia, they take some years to become experts. The Finance Minister is asking for five years and I cannot grudge that to him.

SHRI C. D. DESHMUKH: Four years.

PROF. G. RANGA: He now makes it four years. I am not prepared to grudge that. I would give that much time, if I were the Finance Minister myself. From now, I would like to take the necessary steps to provide the requisite training for these people. Here I have a complaint to make against the Government. Years ago when the late revered friend of mine and ours, Dr. Shyama Prasad Mookerji, was the Minister for Industry and Supply, he gave an assurance to Parliament that Government would take all possible steps to train the personnel required both for commercial and Government undertakings in the country. Unfortunately, Government has forgotten all about it. Nothing has been done for the last seven or eight years.

SHRI C. D. DESHMUKH: Is it for commercial undertakings only, or for Government, or for both?

PROF. G. RANGA: To start with let it cater to Government undertakings. If a beginning had been made, it would have been possible for me now, here and now, to say "Please extend it to the commercial concerns also, so that the gentlemen from these companies, people coming from rich families of business houses, could get some amount of training".

SHRI H. C. MATHUR (Rajasthan): They have drawn up a scheme of business management.

PROF. G. RANGA: They have drawn up a scheme but where is the institute? No beginning has been made

[Prof. G. Ranga.]

My hon. friend, the Finance Minister, is looking forward to this new institution of secretaries and treasurers to play a more and more important role in the industrial development of our country. I welcome this move, but it will prove abortive if special steps are not taken by Government, may be in co-operation with the universities, to train people for this purpose. After training, they should be associated with some concerns to enable them to gain practical experience. That way we would be able to get good people to manage the concerns. This should be done in the same way in which the I.A.S. Officers are trained and entrusted with responsible positions.

My hon. friend, Mr. Bhupesh Gupta, is very allergic to foreign capital. When the Britishers were here, all of us were allergic to it because, at that time, somebody else had the responsibility of keeping down or pushing up our industrial development. Today, we have the responsibility, and we want industrial development, to go forward, but we do not have enough money. Do we have enough money? Is it the contention of any Member here that we are capable of raising all the money that we need and as fast as we want? We have got to welcome foreign capital into this country. I did not feel sorry when I heard the news that Soviet Russia was going to establish one Iron and Steel factory in this country. I felt, whatever might have been my opinions—may be my opinions even to-day, in regard to the communist party and the Communist International and all the rest of it—that it does not matter; let Soviet Russia come and establish any number of factories in this country, in the same way that I am prepared to welcome the United Kingdom, or America, or any other country to establish their industrial concerns here in this country. But that does not mean that I do not want any conditions to be imposed. Government has already laid down their industrial policy of 1948 and I am prepared to confess.....

SHRI BHUPESH GUPTA: The Soviet Union has not established its industry here.

PROF. G. RANGA: The Soviet Union has not established itself?

SHRI BHUPESH GUPTA: The Soviet Union has not established an industry in this country in the same way Andrew Yule and some other industrialists, here.

SHRI C. D. DESHMUKH: They are going to help us to establish a unit.

PROF. G. RANGA: When it comes to my friends' interests suddenly they become very technical about every detail. Therefore, they do not want me to generalise.

SHRI H. C. MATHUR: The fundamental difference is there. They are setting up their factory.

PROF. G. RANGA: There are two things now. One is, I stand corrected. Next thing, I welcome this very great anxiety on the part of my friend to be extremely accurate and technical about the way he wants to impress any particular thing. I wish, he would do the same thing when he considers these various proposals that come from this side of the House. Anyway, anyhow we are having this Soviet partnership—is it not so—in the development of this particular plant. Why should we object to similar partnership from various other countries, I ask?

SHRI H. C. MATHUR: There is no partnership in the case of U.S.A.

SHRI M. C. SHAH: Co-operation.

PROF. G. RANGA: Have it as you like; it does not matter. I want industries to be developed in this country and when my money in my country is not enough, I am prepared to welcome money from any part of the world.

SHRI C. D. DESHMUKH: That point is quite valid, that is to say, unless

we get export credit for the establishment of the industry we shall not be able to establish one. The difference is between equity capital and export credit. Now, in the case of the plant to be assisted by the Russians, it will be an export credit plus of course their know-how. In other cases, as in the German plant, it is export credit which takes the form of equity capital. But the essential fact remains that we are short of capital and must borrow one way or the other.

PROF. G. RANGA: That is my contention, Sir.

SHRI BHUPESH GUPTA: We do not accept the last part.

PROF. G. RANGA: Howsoever, it comes, I am prepared to welcome it. It has come in this shape from the Soviet Union. It can be from the Soviet Union in some other shape, in some other area, so long as it does not offend the fundamental policy of the Government of India which was laid down in 1948 and in the shaping of which, Sir, I also had the privilege of making my own contribution at that time from various places of influence. I am prepared to welcome foreign capital into this country. Now how will it come; when will it come? Soviet Russia does not mind so long as it is friendly with our Government, but friendship it must have; that is its condition. But some other countries have some other condition and they want a rate of profit. They want an assurance that they would not be expropriated. They want an assurance also that if they were to have any managing agency that managing agency should be allowed to run for that particular period of 10 or 15 years, some kind of stability, security, surety. Now, they want these things. It is for us, this Parliament as well as this Government, to examine every case on its own merits and see whether it squares with our national policy and, if it does not very much militate against our national policy as a whole, then we should be prepared to allow the Government to welcome it.

Now, all this attack that my hon. friend has been making, not once but repeatedly, only goes to serve one purpose and that is to frighten away all those few people who may be willing to invest their funds in this country and then prevent this country from drawing any capital help or assistance from abroad. Is that going to be good for our country, that is my question?

SHRI H. C. MATHUR: They are very shrewd and mature and they will not be frightened.

PROF. G. RANGA: Therefore they have come; therefore they are coming. I have got some facts and figures here. Here is an article written by somebody here, in the 'India Quarterly', in which we get the figures of American investment in various countries. India got 63 million dollars only, in 1952, whereas so many other countries got more. If you take even the Philippines, it was 178 millions.

SHRI BHUPESH GUPTA: Philippines ^{is} now America's pocket.

PROF. G. RANGA: Yes, yes, we are also in somebody's pocket. As you said, you would be putting an end to their business, if you were to have your own way. Then, Indonesia was able to get 74 millions and now, Canada was having 4,593 millions. Canada is not in anybody's pocket. I can go on giving these figures. That is why I say, investment capital is not coming into our country, and I want it to come.

Then, I go to the next point. Some of our friends said that managing agency has not contributed anything at all. I am not prepared to subscribe to that extreme statement of condemnation. Another friend said that they came into prominence, since 1930 inasmuch as in 1930 some protection was given. That is true of the sugar industry. Because of the sugar excise duty here, because of that protection, it became possible for the Indian Government to take interest in the sugar industry. That is also true. But is it not also true

[Prof G Ranga]
that in Andhra for instance, and in Tamil Nad and various other States—even in Bengal, I suppose—I say that subject to correction—particularly in Tamil Nad and Andhra, that the sugar industry did not come into so much existence in spite of the tariff concessions? No, it has not come into existence. Even to-day

SHRI B C GHOSE Probably that is not a suitable territory

PROF G RANGA Suitable? We produce sugarcane. Our sugar content is supposed to be the highest, even more than that of U P or Bihar

SHRI B C GHOSE Suitable not merely from the agricultural point of view, from the point of view of management, finance, everything

PROF G RANGA. That is just my answer, nothing else. And then there is also this. We started a paper industry, we started a paper factory. We forced the then Government to lend money to it. Then what happened? It changed hands a number of times. In the end, the Government had to take it over, and now, a sum of 30 or 40 lakhs of rupees was all gone into the Godavari. To day, our Government is saddled with it. It is yet to be a paying concern.

SHRI RAJENDRA PRATAP SINHA (Bihar): Who has run it

PROF. G RANGA. Then we had one or two spinning mills and they went into the hands of the northern Indians. Why? I am taking these facts against my own State, that is Andhra. Now, I can give you something more also, but I do not want to offend the susceptibilities of any other State. But here is one example. Why is it that we have not been able to develop these things in spite of the tariff protection, in spite of the various kinds of assistance that the State Government was prepared to give? I am not prepared to say that it is because there is no managing agency. But

where there is a managing agency, you had some industry. Where you do not have any managing agency, I do not know why these industries do not come up. And what conclusion am I to draw? But all the same, there is also the other example of Coimbatore. It is a marvellous place of industrial romance which has been rising during the last 30 or 35 years. When I went there for the first time, in 1925, there were only three spinning mills. You go there to-day. It vies with Sholapur, Bombay, Ahmedabad, Kanpur or any other city and it has got better advantages and one is the rural atmosphere. It does not suffer from the same problem of slums that you find in all these cities. And the workers there are not amenable to go slowly or surprise strikes or various other things in which my hon. friends are such great experts. They know no such thing. On the other hand the wage scale there is rising, it is reasonably high. The workers are very well organized. It is almost closed shops, and 100 per cent of the workers are there in the trade unions. Some are managed by communists, some are managed by us, the Indian National Trade Union Congress, but all of them are union-minded and there is very good understanding between the employers and the employees, and the employers are not managing agencies. That is a very important thing that my friends of the managing agency profession, or as they said 'community', should bear in mind.

SHRI BHUPESH GUPTA Fraternity

PROF G RANGA. They do not have managing agencies. They are building up a thing like this. While there is something to be said for managing agencies, there is nearly as much, if not more, to be said for industrial development without managing agencies. You have both the systems, here in this country. I do not want either of them to be destroyed. They would both co-operate

with each other and would be able to win the confidence of the public in this country and then we can socialise the industry. Today, we have not yet reached that stage. Therefore, I am not prepared to agree with those friends who say that this managing agency is an undiluted evil and poison. It is not so.

Then Sir, I take up the other point. Some friends asked 'why have you made this provision for charities?' These people are mulcting and many people are conducting marriages from out of these funds and many others are having cars and various other personal conveniences from out of this' Sir, I do not have the figures. No memorandum has been sent round to us anyhow. It is quite possible that some of these allegations are correct and are based upon truth. After all there are black sheep, but at the same time how can I be blind to the existence of this Birla Temple here in this city? Is it an ugly thing? It is beautiful. One of the things that everybody who comes from the South to Northern India wishes to see is this Birla Temple.

SHRI V K DHAGE Birla temple? Where is Birla temple?

PROF G RANGA There is one. You have not seen it. I suppose.

SHRI H C MATHUR It is Lakshminarayan Temple.

PROF G RANGA I do not know what they call it. It is popularly known as Birla temple. Anyhow I owe no apology to anybody for saying that because it is known that way. Here, you have Lakshminarayan Temple, you have Krishna's temple, you have Buddha's temple, you have Kali temple, you have Shiva temple. You have all these things here.

SHRI V K DHAGE You had princes also who built many temples. You should not have done away with them.

PROF G RANGA Am I asking that Birla should be made a permanent institution in this country? I have not said that. When the time comes, I will be not only with my friends, but we ourselves will take the initiative. *my*

SHRI H C MATHUR The time has already come.

PROF G RANGA I will come to the question of time a little later. As I was saying, here is this institution. I find a similar institution there in Mathura. I find another one in Paldwar and I find another one in Sevagram and in a number of other places associated with one name. Not only that, when I was in jail in 1943, when there was that terrible food famine in Calcutta and lakhs and lakhs of people were dying, my friends here were—because they were with the British Government at that time—willing to co-operate with an institution called the Famine Relief Organisation, of which some Goenka was the Chairman.

SHRI BHUPESH GUPTA The hon. Member is thoroughly misinformed. As far as Birlas are concerned, we knew a lot of things about them, how they thought about the Bengal famine.

PROF G RANGA Birlas? My friends may have brought it about. Fate might have brought it about. I am not concerned with who brought it about. I am concerned with the private relief that was given at that time. I want my friends to say whether they co-operated or not in the distribution of alms that were got together with the moneys collected by some Goenka.

SHRI BHUPESH GUPTA Not at all, Sir. We had a People's Relief Committee and a Bengal Medical Relief Coordination Committee of which Dr. Bidhan Chandra Roy was the Chairman.

PROF G RANGA I am glad that my hon. friend has admitted one thing, that Dr. Bidhan Chandra Roy

[Prof. G. Ranga.]

was the Chairman of the Committee from which they used the funds. Sir, Dr. Bidhan Chandra Roy is also behind this Bill, behind this Government, but my hon. friends are here prepared to say that this Government and Dr. Roy are the sole agents of these capitalists. Sir, they cannot have it both ways.

SHRI BHUPESH GUPTA: People do change, as you have changed.

PROF. G. RANGA: I have changed, but I have not sold myself. You may have sold yourself; it is your look-out.

MR. DEPUTY CHAIRMAN: Order, order.

PROF. G. RANGA: I am sorry, Sir. Yes; change there must be. There is also the change from cold war to something else at their own request. Now, I am on this point about charities. No criminal offence has been committed by my hon. friend the Finance Minister by making this provision here for charities. He has, I find, provided stipulations also, that not more than so much shall be given for charities and he has also laid down regulations as to how these funds have got to be utilised hereafter, so that there would not be so much scope for abuses

SHRI C. D. DESHMUKH: That is only directors' powers. There is no restriction on the company's powers. It is a matter as between the company and the director. What is regulated is the power of the directors vis-a-vis the company.

PROF. G. RANGA: Yes, so that directors might not be able to misuse it, against the intentions of the company.

Then I come to the question of time. My hon. friend was very impatient about the time. Why not, here and now, nationalise the whole thing?

SHRI V. K. DHAGE: In that very provision relating to charities to which you are referring, there is also a mention of 'other funds'. We would like to know from you as to what the 'other funds' mean besides charities.

PROF. G. RANGA: That elucidation should be coming from the Treasury Benches, not from me.

SHRI V. K. DHAGE: You were referring to it.

PROF. G. RANGA: I am only concerned with charities and I have given you my answer.

MR. DEPUTY CHAIRMAN: Order, order.

PROF. G. RANGA: In regard to 'other funds', I leave it to them. If they got any justification, they will provide it to my friends.

Now, I come to the question of time. It is true we would like to have it. For the last 30 years, I have been asking for a socialist transformation, for a socialist reconstruction of this country.

SHRI B. C. GHOSE: No nationalisation.

PROF. G. RANGA: They do not want rationalisation.

SHRI B. C. GHOSE: We want the abolition of managing agency.

PROF. G. RANGA: I am coming to that. But there are other friends here. The other day, I think it was Mr. Vallabharao who said that he supported this Bill. I welcome that last statement of his. But why do they support it? Because the moment this comes about, those people will non-cooperate with you. They will not make any more investments in industrial concerns. They will even possibly sabotage. They will go into liquidation or whatever it is, and your second Five Year Plan will become a mess. Once you become a failure, your

people will turn against you, as they are turning against Peron in Argentina. And this Jawaharlal Nehru and all these people can be sent to Andamans or somewhere and we will come and stay in your place. Is that the idea? If that is the idea that my hon. friends have got, I am not prepared to make it convenient for them

In regard to nationalisation, I think the Prime Minister has given a very good answer, some time ago, that whatever may be the virtues or vices of nationalisation, just at present, it is not wise on the part of our nation to spare so much of its funds which are so very badly needed otherwise, for paying compensation to these people who have got vested interests.

SHRI BHUPESH GUPTA: Do not pay compensation.

PROF. G. RANGA: There he is. That is exactly the reason why I am here and he is there. It is no good my trying to answer every one of his shibboleths, because it is a cardinal point of difference between the socialists and the communists. Socialists do not believe in confiscation. Communists believe in confiscation; even in confiscation of life, if there is any possibility. Therefore, we want to pay compensation and our Prime Minister has come to the right conclusion that it would not be wise in the interests of the country to spare whatever resources we can command now from the small savings of millions of our people in our country in order to pay compensation to these people and then only come to manage an industry which is already there. Instead, he has suggested—and I have agreed with him all these years—that it would be much better that the Government should go out of its own way to give every possible incentive to those people who have got small sums of money to invest them either in the private enterprise or in the various enterprises that the Government themselves would be starting here in this country and in that way push up the industrial development of our country.

SHRI V. K. DHAGE: Why not Birlas start something else?

PROF. G. RANGA: Let Birlas start something else. But.....

SHRI BHUPESH GUPTA: What about the moneys that are being sent abroad?

PROF. G. RANGA: But when Birlas start something, they need incentive. Don't they? The communists thought that no incentive was necessary but what did they do? You know, Sir—you were also there along with me—that all those incentives which the capitalist system has found it necessary, through its experience of human beings and human psychology, have come to be adopted in Soviet Russia in order to induce their own workers to put their maximum possible effort.

SHRI C. D. DESHMUKH: Are they not called material interestedness instead of private interestedness?

PROF. G. RANGA: The communists used to say, we do not accept any piece work wages; they have adopted it there. No overtime payment; we will never allow our workers to overwork lest their stamina should go down—that is being done there. We will not give them any incentive by way of rewards; they are giving the rewards. We will not give any prizes—the Stalin prize and all the rest are there. I am glad they are doing all these things. These were discovered by capitalist economy, but they are not necessarily the special features of the capitalist economy at all. In the history of things, it happened like that. But I give them credit in Soviet Russia for having utilised all these incentives.

Now, my friend comes and says the INTUC is wrong. We do not want our workers to be corrupted. We want to take away the whole of the managing agency system, if and when the time comes—like a ripened fruit which will fall into our hands. In the meantime, we will not have this partnership with industry. Our friend

[Prof G Ranga.]

has said already—Mr Malviya, I think—speaking on behalf of the INTUC, that in Yugoslavia there is this partnership. Now, we may not be able to have it in the way in which they have done it in that country, but we should be prepared

SHRI BHUPESH GUPTA In Yugoslavia the ownership is fundamentally social ownership, here it is private ownership.

PROF G RANGA Whether it is private ownership or not if they were to read this Bill, the significance of 'privacy' or 'privateness' would be understood. It is not kept so free. You forget that it is shackled. It is manacled, it is controlled, it is regulated. It is kept under the thumb of the Government, provided the Government would continue to be sympathetic, as our Finance Minister has said, progressive, considerate and also

SHRI V K DHAGE Responsive

PROF G RANGA responsive I thank my hon friend for having helped me out. Well, Sir, therefore, we have this system placed before us. In this system I want one more step to be taken in order to make it more responsive and also more socialistic and that is to provide one or two or three places for the workers' representatives. One friend here in a very lighthearted manner said—unkindly also, I thought—that the workers are not likely to cooperate, are not likely to make any constructive contribution, and that they are so ignorant and so illiterate. Therefore please do not ask them to come and co-operate to sit on the board of directors. I think that is a very unhelpful suggestion to make. Equally unhelpful is this non-cooperation offer. But my friend says, you are all changing so many of you are all against managing agency. The Treasury Bench are only coercing you to agree to them. Why do you agree? What happened? My hon friend himself confessed that some misappre-

hension had arisen out of the speeches made by Members of his own party in the other House, in favour of one or two places for the workers on the board of management. One of my friends told me that they themselves were party to giving notice of an amendment suggesting that the workers should be given place on this. And yet, how is this that my hon friend comes here yesterday as well as today and says on behalf of the communist party, we are not at all in favour of workers' partnership? What has happened in between these two? One of their leaders took part in the

SHRI BHUPESH GUPTA The other Members in that House were not quite informed of the party's stand in this matter.

PROF. G RANGA Poor fellows! They did not know. Supposing the Members of the Congress Party had committed any such small mistake, he would have fallen foul upon them and told them—these people are irresponsible. They do not know the mind of their own leaders and all the rest of it. When it is good for them, is it not good for these people? On the other hand a leader came from Poona and that leader who took part in the labour panel meeting said there "nothing doing with this labour partnership in industrial management". Therefore, my friend proves that he can sing any song. This is the way in which their party works. I do not find fault with them, but I do not have to find fault with this party because this party wants to work in a disciplined manner, and what is more the party does everything openly, before the whole of the country. So many Members could say, down with the managing agents; other Members say, no, the managing agency should be there. Down with the Government some other Member said. No the Government should be supported regarding this matter, some said. All this is going on openly.

SHRI B C GHOSE: Is this a very good procedure?

PROF. G. RANGA: Now, it is a very good system, decent, flexible democracy. And in the end they come to a definite decision, saying to the public that we are not dead to all emotions; we are not dead to different points of view. We give consideration, we give thought to every point of view, and in the end, we come to a definite decision, because in democracy, you have got to agree to come to a decision.....

SHRI V. K. DHAGE: May I know whether he will be ready to leave the fort free so far as the Company law is concerned, and not to make it a party issue? And then we shall see what happens.

PROF. G. RANGA: Don't make anything a party issue—so that it will be very easy for my friends of the communist party to gain control of the country. Is that the idea; is it the way democracy should work? We think freely, we express freely, we discuss things, we influence each other. In your presence also, we are not ashamed of doing all that; but in the end, we sit together and come to a majority view and that majority view we accept. When we come to that majority view, we do not do it in a blind-fold fashion. I have given my reasons, it is not because the Finance Minister has already committed himself to this Bill that I have agreed. Similarly, the other Members also do not agree with me; but nevertheless, in the end they said: all right; we accept the majority view. That is the only way in which you can practise your democracy. That is why democracy is succeeding in this country, and I want democracy to go on succeeding. It is the democratic way of doing things, to allow this private enterprise to function, because we are not in a position on behalf of the Government—either through these corporations or companies owned and directly managed by Government—to run the whole show ourselves. We could possibly, if we do not want to progress. We have taken upon ourselves the responsibility of collecting

Rs. 4,500 crores in this country in some way or other. Is it not so? And then, with that money, we want to build our national economy. Wherefrom are we going to get it? We have already given you the reasons, the ways of doing it. One thousand rupees from deficit financing will go into governmental enterprises. Eight hundred to one thousand rupees saved from private enterprise. That has got to come. If that does not come, then from Rs. 4,500 crores, it will come down to Rs. 3,500 crores. It would mean a lower tempo. You will have to be content with a lower tempo for your own economic development. I am not prepared for a lower tempo of economic development, if only because that I want this country to progress very rapidly.

All right, if we do that, then there is the other fear that the capitalists will grow so powerful. The Finance Minister is so foolish that within these five years, the capitalists will gain so much power in this country that it will not be possible either for Jawaharlal Nehru or the Central Government or any of them to go to the polls and to get back their votes, because the capitalists will influence the votes. There is that; it is a relevant objection. I am prepared to concede that. But is it not our duty, as hundred per cent. democrats, having faith in democracy and having the passion for the social and economic development of our country, to see to it, to run a race now with the capitalists, and see that we win, and that the capitalists do not win? We hold the confidence of the people and the capitalists will not be able to influence the masses of the country. We safeguard our democracy, while at the same time build up the economy—politically and socially, the very foundations for our democracy. That is where I am prepared to take up the challenge, not only of the Communists, but also of the capitalists.

SHRI BHUPESH GUPTA: Sir, I want to make one point clear. The hon. Member said that we had a

[Shri Bhupesh Gupta.]
confusion in regard to this matter of giving representation to workers on the board of directors.....

MR. DEPUTY CHAIRMAN: You have explained that already.

SHRI BHUPESH GUPTA: I presented to the hon. Member this book which was published in July: "Communist Party and Problems of National Reconstruction." It makes no such proposal.

3 P.M.

SHRI RAJENDRA PRATAP SINHA: I would like first of all to congratulate my hon. friends sitting there, who have been successful in retaining the managing agency system in this country, despite all the odds which were against it. Sir, the managing agents are very lucky persons. They are having the best of luck. In the past, they profited by the Swadeshi Movement. Today, they are encashing on their sacrifices. Sir, what was the chief character of their services, I would like to ask. It was merely profit motive and not service. Sir, the Finance Minister says that we have this law to protect the shareholders, to protect them from the exploitation of the managing agents. He believes not in killing the tiger, but in taming him, by taking out his teeth and cutting his nails. May I ask him whether it is possible to tame a tiger and its cubs? The tiger has now tasted human blood and now, we want him to live on milk. In his hunger, he will grow more ferocious.

DR. W. S. BARLINGAY (Madhya Pradesh): It is circus.

SHRI AKBAR ALI KHAN (Hyderabad): It does not apply to human beings.

SHRI RAJENDRA PRATAP SINHA: Sir, in this booklet which was circulated to us, the Finance Minister has said, on page 29, that the managing agents have been receiving, dur-

ing the years 1950, 1951 and 1952 27.7 per cent. of the net profits of the companies. If you look at the individual industries, you will find that the managing agents have been drawing much more than the 27.7 per cent. as stated by the Finance Minister. I will draw your attention to the evidence which was tendered by the Bombay Shareholders' Association to the Joint Select Committee. They have said that it was once reported, in the year 1951, that 40 groups of managing agencies were involved in malpractices involving 80 crores of rupees of capital. There is another quotation which I will give:

"Here we have made an analysis of the working of 39 Bombay cotton textile concerns, under representative firms of managing agents, most of whom are remunerated on the basis of commission on profits plus an office allowance in some cases. Here, we have found that the percentage of managing agents' commission and office allowance to net profits works out 38.8 per cent. These are figures from 1940 to 1947; for eight years."

In regard to another group taken from Ahmedabad—22 Ahmedabad cotton textile concerns—this figure works out at 70.5 per cent. for the same period. An instance of the jute mills in Calcutta is also given and it is said that their profit, during the same period, is worked out at 36.9 per cent. Take the case of the shipping industry. They say that the Scindia Steam Navigation Company have drawn a commission of 16 or 18 lakhs of rupees although they maintain that they have no financial responsibility in the company because that money they have got from the Government. You will, therefore, find that the managing agents have been drawing excessive profits all these years. Now, this Bill proposes to bring down their profits to an overall sum of 11 per cent of the net profits. The provision that we are now going to have is that the managing agents will not get more than 11 per cent. But we are also in possession of facts which prove that

the managing agents have been drawing all kinds of illegal profits which are not disclosed in the balance-sheets. We have the reports of the Taxation Enquiry Commission and the Tax Evasion Committee and all that. They have disclosed that large sums of money have been taken away by the managing agents out of the funds of the companies which do not come to light at all. Nothing is being done in this Bill to check the managing agents making these illegal gains. We cannot expect the managing agents to turn out to be angles overnight, with the help of this voluminous book in the hands of the Finance Minister.

There are various ways by which the managing agents have been making all kinds of profits. I do not know how the Finance Minister proposes to check those profits of the managing agents. I will give you one or two instances. Now, it has become a regular practice that the top executives employed in the companies are paid far in excess of what they can actually get, because the managing agents take away a good portion of the money that they pay to their executives. Now, what is going to happen is this, that they will have nominal managers who will be getting the remuneration as provided in this Bill. But the actual management of the company will now be done by the other executives, the Chief Engineer or the Chief Accountant or the Chief Chemist and all that, and thus, they will be inflating the salary bill of the company. What is going to result out of this? The managing agents will be gaining, but the State will be losing, because they would not get the super-tax, which they could have otherwise realised from them.

The crux of the problem is that this system is very immoral and defective. I know that there are moral people in this managing agency fraternity, but the system is so immoral and defective that all kinds of evils flow out of it. Now, we cannot end these evils unless we end the system itself. The managing agents are an enormously rich and

powerful people. Now, how have they become so rich? If you look to the history of the managing agents' houses, you will find that most of them began from very very small beginning. They had not that wealth but gradually they amassed this wealth in the managing agency houses. How they have done it? It is because the wealth in the hands of the managing agents grows, not in arithmetical proportions but it grows in geometrical ratios. Therefore, these managing agents have been able to amass large quantities of money. They exert all kinds of pressure and influences to further exploit the companies' resources.

[THE VICE-CHAIRMAN (DR. P. SUBBARAYAN) in the Chair.]

Sir, the managing agency system enjoys certain privileges and rights which have helped them a lot to carry on their exploitation. No doubt the managing agents under the existing Company Law or under the revised Company Law are expected to work under the control of the board of directors, but, Sir, who are these board of directors? The managing agent generally are expected to be rich people, who control even 51 per cent. shares of the company of which they are managing agents. Now, Sir, you will find that this 51 per cent. control is converted into 100 per cent. control, because in a company at least 15 per cent. shareholders never come to shareholders meetings. Therefore, with minority votes even, the managing agents control and exploit the entire resources of the company. You may say that the managing agent is exploiting upto 51 per cent. of his own money. Quite right, but he will at the same time also exploit 49 per cent. share capital of the other shareholders. Now, if we had introduced, compulsorily, the system of proportional representation, these minority shareholders would have gone on the board of directors and would have safeguarded their own interest. They could have seen that the managing agents do not exploit the resources of the company for their personal

[Shri Rajendra Pratap Sinha.]

interest. Sir, it is not possible to bring to light all the tricks that the managing agents play, because there is no outer control or check on their inner doings. But, if we have a system of proportional representation, the minority shareholders will get a chance to look into the inner working of the company, or of the managing agents.

Sir, another point is the period for which these managing agents are appointed. The period of ten years or fifteen years, that has been provided, is too long a period to give him a free hand in the company's affairs. Now, whether we do away with the system of managing agency system or not, but the period of appointment could be lessened. As a matter of fact, we should provide in the Company Bill that the period for which managing agents should be appointed should never be more than five, six or seven years, maximum.

Sir, it has been made out by the Members sitting opposite that the managing agents have rendered yeoman service in the industrialisation of the country. Sir, there is nothing more profitable than to be a managing agent. As I said, Sir, that service was incidental to the profit motive. I want that they rendered all the service but the managing agents have a counter-obligation. Do they want that we should not have control over them? Since they want to have a free hand in developing the industry in this country, there is also a certain amount of social obligation on them to behave well.

Sir, on going through the evidence I find that the representative of the Federation, Mr. Birla, has suggested that "no restriction should be placed by the Company Bill on the development of industries", and he wants a free hand for the industrialists to develop this country industrially. Sir, if you expect that from us, you should also see that the abuses that are prevalent in the system are eradicated so that the State would not come with a heavy hand upon them. I would like

to ask from my friends opposite: what have they done to condemn the doings of their own people, who have been exploiting the resources of the company? What have they done to stop such black-sheep from carrying on the business of managing agents. Sir, you will find that the Association of the big business take up the cause, even the worst of the worst, of the managing agents. If they had done something on their own, my friends could have come to us and assured us that they will look after the abuses themselves and we should not legislate to eradicate those abuses.

Now, Sir, I would like to draw your attention to Clause 326, which gives very wide discretionary powers to the Finance Ministry whether to appoint or re-appoint a managing agent or not. I would regard this as a dangerous clause. I have got every regard for the Finance Minister, but I would submit that it is not proper to give such wide powers to the Finance Ministry in this matter. I would not mind, if these powers were subject to certain control from legislature as well. Knowing full well what type of people our managing agents are, to permit them to exert all kinds of influences upon the executive is not very desirable.

Another point made out in favour of the managing agency is that they have provided the 'promoters' capital.' The Finance Minister has said that they usually provide 15—20 per cent. of the capital in the beginning in order that a company may be promoted. Now, Sir, we find that these people were in a position to provide this promoters' capital, because they had a lot of money in their pockets. And then, Sir, there were certain classes of people in this country like the Princes and other big investors whom they could influence, as they were their friends, to put in 15 or 20 per cent. of the capital in the beginning stages for developing the industries. But now, Sir, you will find that, in the changed economic condition, it will be very difficult even for the managing agents to provide this

promoters' capital. I understand, Sir, that even the Ministry of Commerce and Industry was finding it very difficult to get promoted most of the industries, because of the fact that promoters' money was not forthcoming. Therefore, Sir, you find that we have now got these Finance Corporations and Development Corporation which have taken up the function of providing the promoters' capital, which previously used to come from the managing agents, or from the big investors. Now, I feel, that gradually the managing agents will not be in a position to provide any promoters' capital. Therefore, there is no point in allowing their existence on this consideration alone. The State will now have to guarantee and provide the equity capital to a large extent in most of the industries.

The other point that I would like to submit for your consideration is this, Sir, that in the time to come, we shall have to have greater dependence on the small investors, now that we have got all kinds of controls over higher profits, we have got the estate duty introduced and other similar measures. The result is that there will be no big investors left in this country. And ultimately, we will have to depend upon the small investors. And we cannot enjoy the confidence of the small investors unless they are sure that the managing agents who have been fooling with their money, who have been putting them to all kinds of losses, are removed from the scene altogether.

Then, Sir, there is another point also, which is very important. In the whole of this voluminous Bill, we have not got any clause against the amalgamation of the existing companies. What I fear is this. Because of this clause, clause 332, which says that a person or a firm cannot be a managing agent for more than ten companies, there will be a large-scale amalgamation of the companies that are already under the managing agents. Now, my fear is that in the time to come, this clause will itself become infructuous, because, as was

pointed out by the hon. Member, there are about 60 companies which are managed by a few houses, and all these will be amalgamated together, and nothing will be left to come under the other form of management. And the further great danger in allowing this managing agency system to continue is this, that the managing agents will see that the alternative modes of management that they want to develop under Chapter IV, that is to say, the ~~treasurers~~ ^{Treasurers} and managers, are still-born babies, because it will be in their interests to see that these alternative modes of management do not develop, so that in the year 1960, they will be able to place the Finance Minister or the Government in a predicament, and they will argue that because there was no other form of management, the managing agency system should be allowed to exist further.

There is yet another point, Sir. Under this chapter, the secretaries and the treasurers will be paid 7½ per cent. as their remuneration. Now as you know, Sir, the over-all remuneration should be only 11 per cent. under the provisions of this Bill. Now, a company, which has already got a secretary and a treasurer, who are paid 7½ per cent. can also appoint a manager without reference to the Government and pay to that ~~Manager~~ ^{Manager/Na} 3½ per cent. and that will be within the limit of 11 per cent., proposed to be paid as remuneration to these two sets of managers. Ultimately, what is going to happen is this that the existing managing agents will continue to manage all these concerns and they will draw 11 per cent., and the secretary as also the Manager will also draw 11 per cent.; and at the same time, they will circumvent clause 332 which says that a managing agent cannot manage more than ten companies. Therefore, Sir, I would suggest that we should not permit those companies who have their secretaries and treasurers also to appoint managers.

Then, Sir, there is another interesting point which I find in the speech

[Shri Rajendra Pratap Sinha.] of the Finance Minister in the other House, and which was circulated to us. He has said at one place in this booklet that the cost of management of Sindri is only one per cent. Now, Sir, Sindri is a very big factory under the public sector. If we can manage, and manage efficiently, that unit at a cost of one per cent., what is the justification in permitting other big industrial concerns to be managed at a cost of 11 per cent. of the net profits of those companies under the private sector? Sir, this is a very big disparity, and I would, therefore, like the Government to ponder over this matter and try to bring about parity in the matter of cost of management of the industrial concerns, in the private and the public sectors. What is the justification, Sir, in paying to the managing director of the Tatas Rs. 10,000, and to the managing director of another steel factory, which is just across the river in the other State, only Rs 3,000? I do not see any justification in that. For the steel factory in the private sector also, the State has got to provide money—a large part of it—under its expansion programme, and the State has to guarantee the loan that they take from the World Bank. So, this point, Sir, has got to be looked into, and we must see that this disparity is done away with.

Then, Sir, I wish to draw your attention to clause 352, which empowers the Government to sanction payment of remuneration to the managing agents over and above 11 per cent. of the net profits. Now, this is also very unjustifiable. This clause, in fact, does away with all the effects that this Bill is going to produce. On the one hand, you are saying that the maximum remuneration that you are going to prescribe is 11 per cent., and on the other hand, the Finance Minister is being invested with powers to increase that remuneration to any amount he likes. Sir, I would like this clause to be dropped out from the Bill.

Now, I will draw your attention—this is my last point—to clause 362,

which empowers a company to appoint its own managing agent as a selling agent outside India. Now, there is a similar provision in another clause, which permits the company to appoint its managing agents as its purchasing agents outside India. This will create a very big loop-hole, particularly to the foreign companies, to take away a good portion of the profits of the company, which we want to stop by bringing in all kinds of checks on the managing agency system and the managing agency remuneration which they draw. Then, there are Indian companies also who have their dealings in foreign countries. Most of the Indian companies also make their purchases, particularly the textile mills, of their cotton, and most of the mills purchase their machinery outside India and they sell their products also outside India, because we want to develop our international trade and, to permit these companies to appoint their own managing agents as their selling or purchasing agents, will be a dangerous thing and will defeat the very purpose of this Law. I will draw your attention to what again the Bombay Shareholders' Association, who are rendering really yeoman service to the shareholders, have said about this clause:

"The managing agents are debarred from having any selling or buying commission, unless they have their organisation outside the State."

because in the Bill as originally introduced, it was stated as 'State'. That was all the more dangerous. They further said:

"and secondly, unless they have it passed by a special resolution.

Here we have to submit that this is likely to create a cleavage between the owners of the company and the managing agents, because this will provide a lacuna for the managing agents to take some commission by keeping Offices outside the State (that is India). Therefore our submission in this matter is, that the Bill must provide that no commission on sales or purchases should

be payable to the managing agents in any form, either in or outside the State. (that is India). I have examples where, as soon as people have been appointed managing agents, they have appointed their companies as nominees in England or other places or some other companies for the purpose of purchasing goods and similarly also for selling.

Therefore, I would like that this concession that we have given should also be withdrawn, in order to make this Bill a fool-proof Bill. Thank you.

SHRI J. S. BISHT (Uttar Pradesh): Mr. Vice-Chairman, I must express my grateful thanks for having given me this opportunity, because last time in the Press Commission debate, I missed it by just half an hour. At the outset, I must express my thanks to the Minister of Finance for having supplied us with a copy of his speech in the other place, bringing out all the points that had been raised by other people in that place, and I hope, you will take it up with the other Ministries also, that in future, if any Bill of major importance comes up in that House, we are supplied with extracts of the speech of the Minister in charge of the Bill, so that it is a matter of great help to us. True it is, that the speeches are there, available in the Library, but because we are engaged here from day to day in debates of various kinds, it becomes very difficult to go there for seeing that copy.

Secondly, I wish to point out that there is no doubt that, in the last 10 years, after the second great world war, certain abuses crept into the system of what is called the managing agency system, and those abuses led to all sorts of evil practices to the detriment of the average shareholder. I have a list here. If I were to quote a few, it will be evident from them what has been done. For instance, loans and advances of a non-trading nature have been given to friends and business associates of managing agents. Free advances have been made to managing agents on current

accounts. Advances to or investments in sister or allied concerns have been made for illegitimate purposes, e.g., for acquiring voting control or managing agency rights in sister or allied concerns; funds have been supplied to such firms at the expense of shareholders of the stronger ones. Instead of being financed by the managing agents, companies have financed the managing agents. Then managing agents, or allied units, are appointed as buying and selling agents, brokers, *mukadams*, and the tendency to enter into contracts between managing agents and their companies, in which managing agents act as principals, increases. In fact, a large number of these abuses are here. Deferred shares are issued with disproportionate voting and other rights and allotted to managing agents as a means of strengthening their control on the companies. Additional remuneration is provided for directors without any reason. Unwarranted terms and conditions are inserted in managing agency agreements. Companies are started with insufficient capital and the poor shareholders are brought in on big hopes only to meet with disappointment, and experience various types of malpractices inside the very working of the companies. Their subsidiary system is used to effect changes in managing agency contracts advantageous to the managing agents concerned. There are also instances where the sale of management interests in the managing agency company to one party and of controlling interests in the managed company to another party, has led to a piquant situation, involving a tussle between rival groups, in which the interests of the undertaking and its shareholders cannot but suffer. The well-known Muir Mills of Kanpur is a case in point here, where the Ranas of Nepal sold out their holding to the Singhania's, while they sold their shares in the managing agency company, the Indian Textile Syndicate Ltd., to the Baglas. I mean, these are the many types of abuses that crept into the system during the last ten years. We have knowledge of all these

[Shri J S Bisht]

facts, as also many other facts, that were brought to our notice by the hon Members speaking from the Opposition. Nevertheless, we should not allow our judgment to be deflected by only the abuses that crept in the last 10 years, and forget the services that this system rendered to the development of the Indian economy in the last 75 years. In fact, any student of economics will admit that, but for the existence of this system, probably the economic and industrial development of this country would not have been possible. So much so, that India ranks eighth among the industrial nations of the world. I will quote, for instance, the Indian Industrial Commission of 1916-18, which included such stalwart patriots like Pandit Madan Mohan Malaviya and the head of the Tatas, Shri D J Tata, who said, "The managing agency system is in many ways well adapted to present conditions, in India, and has a far greater list of success to its credit than can be shown by ordinary company management under individual managing directors." The Commission was much impressed by the "high financial prestige possessed by the better class agency firms", and by the readiness of the investing public to follow their lead—a position only reached by a policy extending over many years, of efficient management, cautious finance, and watchful attention to the interests of client enterprises." I will also quote here the evidence that was tendered before the Indian Tariff Board, in 1927, of instances where managing agents had placed large sums at the disposal of the managing companies at 6 per cent, at a time when money could not be had for any thing less than 8 per cent. In other cases which were proved before the Tariff Board, the managing agents had been willing to use every penny of their own resources to prevent the collapse of the companies under their charge. Shri Purshottam Das Thakurdas, who was not himself a managing agent, told the Indian Tariff Board in 1927, that "but for the managing

agency system, you would have had 30 mills in liquidation today." He was referring to the Indian textile mills of Bombay. And the dominant theme of all this managing system is that it provides expert managerial skill.

Managing agents, Sir, fulfilled three-fold functions, being financiers, company secretary and technical consultants. That is, so far as the earlier report is concerned.

Then, I would draw your attention to the Fiscal Commission's Report of 1949-50, which was presided over by Shri V T Krishnamachari who is at present the Deputy Chairman of the Planning Commission, and among its members was Shri Khandubhai Desai, who is our Labour Minister now. In paragraph 225 of that Report, the say

"The traditional form of organization which controls higher policy in many established industries, viz the managing agency system, is peculiar in India. It came into being for historical reasons which are well known and has rendered signal service to Indian industries during the last seventy-five years. In the early days of industrialization, when neither enterprise nor capital was plentiful, the managing agents provided both, and India's well established industries like, cotton, jute, steel, etc owe their present position to the pioneering zeal and fostering care of several well known managing agency houses. During the inter-war years, however, several abuses crept into the system, which were aggravated by the circumstances in which business was carried on during World War II, and the general decline in standards that followed."

And further on, they say.

"They also affect the quality of the direction and management of industries. We reiterate the recommendation we have already made in paragraph 210."

In this paragraph 210, they recommend that all these points should be investigated—these abuses that had crept into the system.

10. Later on, as we know, Government appointed what is known as the Bhabha Committee, which then drafted most of the remedies that are now included in the present Bill.

It will be seen that the term "managing agency" has been included in the present Bill and this, I think, has created so much of confusion in the minds of the Opposition, and also in the mind of the general public. Actually the system that is envisaged in the Bill should have been given some other name, because the curbs put under the new system makes the system quite different in shape from the managing agency system, as it exists today. I will just quote the curbs that have been placed on the new type of managing agency system that is introduced in the Bill which is under discussion.

First of all, there is this provision that a general meeting alone can appoint a managing agent. That is very important, because, when the company is being formed, all the members are called to the general meeting and they alone will be in a position to appoint the managing agents. Even when they are appointed, that is not the final thing, for the managing agents, when they are appointed, they have to go to the Central Government, under the new Company Law administration which is being put in, for approval of the Government. The Government will have to approve of the appointment of the managing agents. And Government will give its approval only if it is satisfied that the appointment of such a managing agent would not be against the public interest. That is number one.

Number two is that Government will see that the person or the corporate company appointed as managing agents is, or are, fit persons to be appointed managing agents.

Thirdly, Government will see whether they will fulfil all the conditions which are required to be fulfilled.

The fourth condition is, that the terms of the contract should be for a period of 15 years and no more, in the first instance.

Fifthly, if there is re-appointment, it will not be for more than another 10 years, and the re-appointment cannot be made within a period of two years, and these are subject to the approval of the Government.

The next condition is that no managing agent can have more than ten companies at a time.

Also, in future, the particular device, by which they made these illegal profits, has been taken away because they say that the sales cannot be done by them or their associates, except under very rare conditions which are very much better.

Then, they cannot put up any business which is likely to compete with the business of the managed companies.

And what is most important is that the managing agency cannot in future be heritable. This is very important, because we have had very bad cases, where even schoolboys reading in schools had been made managing agents, just because their parents and others were working as managing agents.

With all these safeguards in the new Bill, in all the clauses from 325 to 377, with all these curbs, I do not think there is much chance of the managing agency system, in future, committing the same abuses which unfortunately had crept in the system, during the past period, when the whole market was a sellers' market and not a buyers' market. Moreover, under this Bill, Government has the power to appoint inspectors for making investigations, if one-tenth of the shareholders make a request, or even otherwise. Under these strict conditions, there is no danger of any abuses. Also, the Finance Minister has said that the net profit should be brought down from 27 per cent. to 10 per cent. On the top of all that, another device has been provided in

[Shri J. S. Bisht.]

the Bill, I mean, the new institutions known as secretaries and treasurers. As the hon. Finance Minister said here, the system of managing agents itself was not created by the Indian Companies Act. It was recognised only in 1939. It grew up in the latter part or rather the middle of the nineteenth century, when there was no technical "know-how" in the country, no capital formation, and all the rest of it. It was mostly the British firms that actually started the whole business, and they began this system.

For instance, a man in Bihar had a large stretch of land and somehow, he discovered there was a coal seam beneath. How to develop it? That was a point exactly similar to the one that Prof. Ranga was developing this morning here. He showed, how in the Andhra State, in spite of all this tariff protection, no sugar factory could come up. Exactly the same was the position of this zamindar in Bihar. The coal seam beneath the soil was much more valuable than all his zamindari. So, at that time, he had to go to one of these managing agency firms who were already managing some collieries. They had their engineers and technicians and as they came and surveyed the land and worked out a plan. When they discovered that it could be made a paying concern, they floated a company.

The zamindar probably passed on his landed property to that concern and got, in lieu, certain shares. After that, it becomes the concern of the managing agency to build up the machinery, to put up the office, to drill and all that sort of thing, as also carry on this business of purchasing and selling. This is how they helped in all these industries like coal, steel, copper, jute, etc.

Take the case of the secretaries and treasurers. There are already sixteen secretaries and treasurers in South India. That is the only place where this has come into being; probably no managing agency could work there. It was the desire of the Joint Select

Committee to investigate this point; the Committee wanted this to be an additional source, so that there will be two competing agencies working in future, namely, the managing agency system and the secretaries and treasurers with this difference that the dividends are limited to 7½ per cent., that they shall not act as promoters or financiers, that they have no right to nominate any directors and that they do not have the right of purchasing or selling except by a special resolution of the general body. This new institution, if developed, will enable all the skilled people, people, who have specialised in this line, to have an opportunity now to serve the country. Shri Kishen Chand said that but for the managing agents a new industrial cadre would have come up. I say that he is putting the cart before the horse; the industrial cadre will come up now because of the great growth in the industrial system. The new class of educated people who are coming now after getting training all over the world, from places like Germany, England, Japan and America, will get the opportunity now. They can club together and create themselves into the new class of secretaries and treasurers and will be able to compete successfully with the managing agents. The managing agents were supplying a small part of the finances, but that part is now being supplied by the State Finance Corporations and the Industrial Finance Corporation. There is also going to be developed the Industrial Development Corporation. This will provide the part played by the managing agency system. There was some doubt expressed by Mr. Sinha about this. He said that the managing agents will see to it that the secretaries and treasurers do not come up. It is a question of competition, a battle of wits, ability against ability. Whoever, in the free play of forces, is able to render better service must naturally come up. With the additional advantage of the help by the Industrial Finance Corporation, there should be no difficulty on that score.

This Bill has also provided for the protection of minority interests. This is of particular importance, because in the past, many cases of difficulty were there. The minority interests could be defeated by people who had manoeuvred themselves into strong positions by having the voting rights. The present position is, that if it is brought to the notice of Government that minority interests are being affected adversely, Government can appoint two directors on the board. Alternatively, Government can also ask the companies to make the appointment of directors under proportional representation with the single transferable vote. If there is going to be any difficulty due to change of ownership, that case also will be looked into. Government is also creating the Advisory Commission.

There is, however, one point on which I wish some light were thrown by the hon. Finance Minister. This point relates to the Government concerns; these concerns are defined as those in which Government has got 51 per cent. shares, or more. In these cases, Government wants to reserve to itself the authority either to exempt them completely from the operation of this Act, or to adapt this to suit the conditions. True it is, that under the pressure of opinion in the Lok Sabha, a provision has been inserted that the power of Government is subject to the control of Parliament. Parliament will have authority to change, if the notification exempting the concerns is submitted in draft; if the notification has been published, Parliament can still suggest changes. That safeguard is no doubt there. After all, these are all commercial concerns and there should be no difference between Government-owned concerns and private concerns. The people will be able to judge them only if they are brought on a level with the other concerns, concerns managed by the managing agents or directors or managers or secretaries and treasurers. Merely because they are Government concerns, that should

not entitle them to this sort of cover. For instance, if there is loss in the working of the Airlines Corporation, you increase the charges; the same holds good in the case of these transport corporations. That sort of thing should not be done. Even a Government concern must submit itself to these conditions in which the consumers' interests are protected and an opportunity is given to the public to judge the performance of these concerns. It should not be that merely because a concern happens to be a Government concern, it escapes from the control and curbs imposed by this Bill; this is what happens on the one hand; on the other, just because they happen to be corporations, they are out of the scope of Parliamentary control. It escapes from both. That should not be the case with the Government concerns. I hope it will be explained as to how control will be exercised over these Government concerns. The shareholders cannot exercise much authority because the other shareholders will be in a minority. The majority of the shares will be held by Government.

SHRI H. P. SAKSENA. May I have one clarification from the hon. Member? Does he believe that the interests of the consumers are being very adequately safeguarded today by the present managing agents?

SHRI J. S. BISHT: It is by the free play of competitive forces. There are managing agents, managing ten or fifteen textile mills and yet they are competing in the market. If the Government concerns compete in the open market, I have no doubt about it. Let them do it. It is a different matter in the case of Sindri or such other undertakings, because in this case, Government has a monopoly.

I now come to the administration of this enactment. I am glad to note that the Finance Minister himself has agreed that this is a very important matter. Management of business is a totally different thing, requiring a different mentality and different

[Shri J. S. Bisht]
 technique than the one required for Government administration. I do not mean by that, that Government administration requires less efficiency or less ability, it requires more but the type of ability that is required is different from what is required in this case. It is not a question of taking decisions and taking time to take decisions. It will have to be most efficient and alert as is required in trade and commerce. There will have to be consultations with the regional administrations, with the Central Advisory Commission and then with the Company Law Administration itself. Some method will have to be devised by which business is not hampered. At a time when we are having big schemes of industrial expansion, when we want to spend Rs 5,400 odd crores in which the private sector also has to play its own part, there should not be obstacles put in the way of development.

Lastly, I must say that the criticisms levelled by my hon friend, Mr Bhupesh Gupta, against these persons were really misplaced. It is quite all right if we want to nationalise the whole thing, but having decided, not once but many times, that there has got to be a private sector in our country, we must give it every help. Even the Prime Minister himself has said that the private sector must go ahead and must be given full freedom to enable it to discharge its functions efficiently. In the private sector private business must have free scope and business in the private sector can function and can succeed only in its own climate. It cannot..

SHRI RAJENDRA PRATAP SINHA: I think, my friend is misquoting the Prime Minister. The Prime Minister said that we must control and regulate

the private sector, not give them a free hand.

SHRI J. S. BISHT: My hon friend has thoroughly misunderstood it. He has said, there will be regulation, but he has also said that so far as the sector that is going to private enterprise is concerned, it should be given complete freedom.

SHRI RAJENDRA PRATAP SINHA: No, no.

SHRI J. S. BISHT: It should not be so fettered that it cannot function in that.

SHRI RAJENDRA PRATAP SINHA: It must be regulated for the social ends.

SHRI J. S. BISHT: Otherwise, if you want to make an attack on it never can it function. Lastly, I must say, Sir, that even in communist China they have this problem and the private sector is allowed to exist for nearly 20 or 30 years now. Nobody knows what will happen in this sector. But, if you have to abolish this private sector today, there is no doubt about it that industrial development will stop; instead of going forward we shall certainly go back.

With these remarks, Sir, I support the whole scheme of the Bill which is planned very well.

THE VICE-CHAIRMAN (DR. P. SUBBARAYAN): The House will now adjourn and meet again tomorrow at 11 o'clock.

The House then adjourned at two minutes past six of the clock till eleven of the clock on Wednesday, the 21st September 1955.