

[Shri Kanungo ]

as the Speaker may direct, two Members from among themselves to serve as members on the Coffee Board constituted under the said Act."

**Mr. Speaker:** The question is:

"That in pursuance of clause (xiv) of sub-section (2) of section 4 of the Coffee Act, 1942, as amended by Act No. 50 of 1954, the Members of this House do proceed to elect in such manner as the Speaker may direct, two Members from among themselves to serve as members on the Coffee Board constituted under the said Act."

*The motion was adopted.*

**Mr. Speaker:** The dates in respect of these elections, that is the dates for nomination, withdrawal and election will be announced in the Parliamentary Bulletin. Instead of making these announcements here, we shall follow this new procedure in subsequent cases, from now on.

COMPANIES BILL—Contd.

**Mr. Speaker:** The House will now take up the Companies Bill. The Finance Minister will continue his reply to the debate. The motion for consideration of the Bill will be disposed of by about 1-30 P.M. Thereafter, the House will take up the discussion on the Report of the Press Commission for which 12 hours have been allotted.

As has already been decided, the House will sit one hour longer today and perhaps tomorrow. The Private Members' Business will accordingly be taken up at 3-30 P.M. today.

**The Minister of Finance (Shri C. D. Deshmukh):** I started yesterday with the observation that after all this debate I felt more than ever convinced that the Scheme put forward by the Joint Committee was by and large the most suitable in the circumstances. I doubt if, within the

time that is available to me, I shall be able to develop all my arguments. But, I feel consoled by the reflection that during the clause-by-clause consideration stage, assuming that the House accepts the present motion, I shall have many opportunities of dealing in great detail with some of the points of detail that have been raised by hon. Members, points which do not go to the principle of the matter.

Hon. Members have pressed into service a large number of animals for the purpose of this debate: sharks, vultures, tigers, lambs and even monkeys.

**Shri Gadgil (Poona Central):** Ancestor worship.

**An Hon. Member:** Leech.

**Shri C. D. Deshmukh:** Yes, leech. Before I deal with some of them, I should like to deal with one other species of animals, namely the red herring which some Members have drawn across the Bill.

**Shri M. S. Gurupadaswamy (Mysore):** It is the spirit.

**Shri C. D. Deshmukh:** Some of these are mal-odorous and offensive—I mean some of the observations made by an hon. Member from Madhya Bharat, who is, I think the Leader or Deputy Leader of one of the important parties: I do not see him there.

**An Hon. Member:** He is here.

**Shri C. D. Deshmukh:** I am sorry, I looked for him in his usual place.

**Shri Kamath (Hoshangabad):** He is nearer to you now. He has moved up to the front Bench.

**Shri C. D. Deshmukh:** He put out a strange theory that the Government was proposing to assume all these powers, and they are nearly 100 in the Bill as reported by the Joint Committee, for political purposes, .....

**Babu Ramnarayan Singh (Hazari-bagh West):** No doubt.

**Shri C. D. Deshmukh:** ..... in fact, for encouraging political graft. A dignified reply to this has already been given by another hon. Member on this side of the House, and that is that these are not any longer the proposals of the Government, but are the proposals of the Joint Committee. Therefore, it seems to me that the hon. Member has been imputing motives not to the Government, but to about 49 Members of this hon. House and the other House.

**Shri V. G. Deshpandé (Guna):** Dominated by the majority political party.

**Shri C. D. Deshmukh:** That is all that I wish to say on these observations.

As regards the other red herring, that is, the case of loans advanced to certain iron and steel companies, the object of referring to this is obviously to throw a fog of suspicion over the Government's motives and to make out that the Government have a bias, a somewhat illegitimate bias, in favour of big capitalists and big industry. The facts in connection with this particular matter were given out to the House by my colleague, the Commerce and Industry Minister in answer to Starred Question 313 on the 31st August, 1954. He explained why the Government had agreed to give a loan of Rs. 10 crores to the Tata Iron and Steel Co., which would be free of interest till 1st July, 1958, or such other date as may be mutually agreed upon, to enable the company to complete their modernisation and expansion programme, the total estimated cost of which is about Rs. 43 crores. He said the intention is not to charge interest for the period of construction with a view to helping in the expansion and modernisation of the plant. He also mentioned that a loan of Rs. 10 crores on similar terms had been granted to the Indian Iron and Steel Company for partially financing their expansion programme. Both loans are interest-free only up to July 1958. The rate of interest to

be charged thereafter is to be determined by Government on the advice of the Tariff Commission. He then went on to explain the importance of the expansion of steel production to the country and the necessity of granting loans therefor on favourable terms because of the fact that the prices of iron and steel are rigorously controlled and the steel industry has had no opportunity as other industries to accumulate resources sufficiently to undertake large expansion schemes. In view of these facts, I challenge any hon. Member who wants to study this matter dispassionately to come to the conclusion that any particular bias of a private nature, so to speak, has been shown to the steel manufacturers.

**Shri M. S. Gurupadaswamy:** Are you extending the same facilities to other industries?

**Shri C. D. Deshmukh:** If the circumstances are similar, I have no doubt that the extension of similar facilities will be considered by Government. These cases are very special and the importance of iron and steel to the country cannot be exaggerated.

In the same connection another hon. Member, the Member from Poona, referred to retention prices and in his opinion also this was an act of partiality. The retention price is a price which is considered to be just to the manufacturers and it is not the market price. The market price is determined in accordance with the price of our own manufacture and the price of imported steel, and that bears an element which forms a subsidy to the consumer in regard to the consumption of imported steel, and it is for that purpose that the manufacturer is given a retention price which is smaller than the market price. Now, it does happen that as among different producers the same retention price does not hold good. Within my experience, at one time, the retention price of one of two manufacturers has been higher than that of the other.

[Shri C. D. Deshmukh]

Then, with the expansion of production in the particular unit, their production price has become lower than the other. And it is all a question whether you fix differential retention prices or a uniform retention price. Both methods have been adopted in the past and all that the present decision involved was the adopting of the method of fixing a uniform retention price. There again, there may be a difference of view, but I submit that there is no evidence of any partiality towards the capitalist. The hon. Member said that in this matter we were probably firm-minded. In retort I can only say that in making this accusation he is somewhat infirm-minded.

Shri Gadgil: It is entirely subjective.

Shri Sadhan Gupta (Calcutta South-East): This is confirmation of firm-mindedness.

Shri C. D. Deshmukh: That brings me to the next matter of general importance, and that is that we are not here dealing with the merits or the disadvantages or advantages of the private sector as a whole. When hon. Members referred to the socialistic pattern of society, they had mostly in mind the existence of the private sector. That is a matter of economic policy which the House has in a sense debated when we discussed the issue of economic policy in, I think, December last. Here is a case of accepting the existence of the private sector to the extent to which we are going to permit it and of finding out how efficient an instrument we can make of company law in order that we may get the best out of the private sector. In this narrow conception of the matter I do not think it is relevant to consider at every step to what extent our desire to evolve a socialistic pattern is reflected in almost every clause of the Bill. To the extent to which we can relevantly consider this matter, I claim that Government and the Joint Committee have considered it. There are provisions, for instance,

which affect, as I shall show, materially the remuneration payable to managing agents and in respect of other forms of management. There are restrictions also the object of which is to put a curb on the concentration of economic power to the extent to which it is likely to prove to be to the common detriment. Therefore it is that I said that the advantages or disadvantages of the scheme that the Joint Committee has put forward should be considered in a somewhat narrower context, principally the interests of the shareholders. By that I do not mean any particular body of shareholders, nor do I mean the existing shareholders. I mean the people who are prepared to put their money even in the future into private enterprise. Having decided that we shall have a private sector and having come to the conclusion that we should exert to extract the best out of that sector, it is our duty to consider how the private investor can be encouraged to put his money into joint stock enterprise. That, it seems to me, is a very legitimate and a very laudable object. Other matters of economic policy are not thereby barred from consideration. All I am pointing out is there are other occasions and there are other places in which we could more appropriately consider them.

Take this question of limitation of dividends or profits. That is a matter which lies in the fiscal field, as it has lain in the fiscal field, except perhaps for monopoly undertakings like electricity and so on where the Act itself lays down certain maxima and certain methods of transferring advantages to the consumer. But for the rest, when we are dealing with the whole field of industry, it is not usual to deal with matters relating to the level of dividends or profits in a Bill of this kind. There are measures which can be considered at the proper time. Dividend limitation, excess profits tax, capital gains tax—these are all well-known instruments, and it is open to any Member to advocate their use at

the proper time or to take Government to task if in their opinion they feel that they have not been used at the appropriate time.

There is another general observation I would like to make, and that is in trying to come to a verdict on different forms of management, hon. Members should not be carried away by the historic perspective alone. What I meant was, if they find a long catalogue of evils, shall we say, being traced to managing agents, they should consider whether the same evils would not have flowed even if there had been no managing agents. That is to say, there are certain forms of abuse which could in the same circumstances have been practised even by boards of directors or by secretaries and treasurers or under any other form of management. Otherwise, there is a danger of our being carried away by a fallacy.

Many hon. Members, therefore, referred to this socialistic pattern of society, and have said that since 1936 when the law was amended last in a comprehensive way, since 1951 when it was temporarily amended, and again since the Bhabha Committee's report was considered and a Bill was framed, many important things have happened especially in the formulation of the economic policy and the acceptance of the principle of the evolution of a socialistic pattern of society by the country. I say that even more than this, another thing has happened, and that is the whole scene of Indian economy now is dominated by the necessity of having planned development. In other words, we are nearly completing the First Five Year Plan, and are on the eve of formulating the Second Five Year Plan. And therefore I think that if one has to put all our legislative measures to the test of current events, I suggest that one should consider the proposed provisions of this Bill in the light of the duties that are going to be cast on us, and particularly Government, in respect of the Second Five Year Plan.

It is, I think, known to hon. Members that the Plan-frame makes a certain provision for new investment in heavy industries in the private sector. I believe they also know that that figure has been raised, in consultation with the private sector, for the consideration of the Planning Commission, by the Minister of Commerce and Industry. It is somewhere round Rs. 750 crores. Now, we have to ensure that in the field which has been allotted to the private sector they deliver the goods; and therefore it would be unwise on our part, if we take a step which to the best of our judgment will prove an obstacle in the way of the private sector discharging the responsibilities that are going to be laid on it, and it would certainly increase unbearably the special responsibility of the Ministry which is charged with securing these results from the private sector.

One hon. Member complained, and I think rightly, that we have not furnished sufficient facts and figures to enable the Members of this House to come to an objective judgment in regard to the possible utility of continuing for some time an amended form of the managing agency system. Now, I believe I am in order in saying that a certain number of facts and figures were furnished to the Joint Committee, and I did not realise that those would not be available, or are not available, in the printed literature, to the House. I have therefore circulated yesterday a short statement summarising—giving the totals etc.—the information in this respect that is available to us. I shall come to those facts later.

But the point I wish to make is that they will find from those figures that managing agents have in the recent past played a not insignificant role in promoting companies and in financing them. And there is no reason why we should not continue to take advantage of their services on our terms and not on theirs. Now, the terms principally include rewards, remuneration for

[Shri C. D. Deshmukh]

service. If we are assured that according to our judgment those rewards will be moderate in future, there is no reason why, with the necessary curbs against malpractices, the community should be deprived, as long as we like, of the services of experienced people and well-known forms of management.

According to certain hon. Members, apparently, the possession of private capital is a sin. I should like to point out that the gains of private enterprise are not a necessary concomitant of any particular form of management. We are all aware that the managing agency system is not known in the U.S.A. or in the U.K. Nevertheless, the U.S.A. has its tycoons, and Western Europe has its cartels. These are not, as I said, the product of the managing agency system. They are phenomena which can be stopped, as to the extent considered necessary they are stopped in those countries, by appropriate measures under a socialistic pattern of society. I believe even in our country many businessmen are genuinely anxious to play a helpful role under such a system, and I think it will be wisdom and statesmanship on our part to encourage them.

Now, I come back to facts about the growth of companies. One hon. Member, who by the way put words into my mouth which I had not uttered, namely that we had preserved the structure of the Companies Bill which was in existence since 1867 or some other date he mentioned.....

**Shri Vallatharas (Pudukkottai):** It was my own observation. I never said they came from your mouth. But there are the remarks passed by you in the opening speech.

[MR. DEPUTY-SPEAKER in the Chair.]

**Shri C. D. Deshmukh:** Those remarks were misquoted. What I said was—this is a diversion—that the Joint Committee had by and large preserved the structure of the Companies Bill as originally introduced in the House, and that they had not

made any changes, substantial changes or fundamental changes of principle. I never went back to Adam or any other antediluvian date.

That hon. Member said that the record of managing agents is clear from the statistics regarding liquidation of companies. I have figures here going back to 1914-15. But I won't take the House over such a long period. I have also separate figures here from 1943-44—which is recent history, shall we say—to 1954-55. Now, it is true that almost every year a very large number of companies go into liquidation. I will give a few figures. In 1943-44, 533 companies went into liquidation involving a paid up capital of Rs. 5 crores. On the other hand, 1,443 companies were registered anew involving a paid up capital of Rs. 3 crores.

**Mr. Deputy-Speaker:** How many of them were managed by managing agents?

**Shri C. D. Deshmukh:** I assume that the bulk of them were managed by managing agents. I am assuming that that is the predominant form. That is why when we pass a judgment on the growth of industry in this country, we are indirectly passing a judgment on the managing agency system.

**Mr. Deputy-Speaker:** Managing agents were there both in those which have gone into liquidation as well as the others?

**Shri C. D. Deshmukh:** I imagine so. I have got figures for two years. It may be that in a particular year, the position may be different. The position may differ from year to year.

**Shri K. F. Tripathi (Darrang):** Did any managing agency firms go into liquidation?

**Shri C. D. Deshmukh:** It certainly would cease to manage a company which went into liquidation. I do not know the further fate of the managing agency because they would manage some companies which go into

liquidation and some which are running. There is another year, I would take, 1950-51—that is the beginning of the Plan period. New registrations were 2104; liquidations were 830 companies. On the other hand, paid up capital was Rs. 3 crores in new registrations but Rs. 9 crores in companies under liquidation. It is true that in all these years, during 1943-44 to 1954-55, the paid up capital of companies which were registered—a very large number of them smaller companies—was Rs. 67 crores, whereas the paid up capital of companies which went into liquidation was Rs. 89 crores. But the point I wish to make is that this is not the only evidence on which one should adjudge this case; one must also consider what has happened to.....

**Shri Vallatharas:** I want to ascertain one fact. The hon. Minister mentioned about liquidations. Practically the part of the managing agents thereon is conceded. But what are the main items of misappropriation or malpractice or abuse on account of which these liquidations have happened? If the hon. Minister can enlighten us on that, it would be of great use.

**Shri C. D. Deshmukh:** That takes one very much farther a field than time would permit. I am only taking the kind of evidence that he adduced. He is now raising a new point. All I am saying is that you cannot consider this matter only on the basis of liquidation figures. In the first place, you must consider new registrations. Secondly, what is more important—I am coming to the more important point.....

**The Minister of Commerce and Industry and Iron and Steel (Shri T. T. Krishnamachari):** Pudukkottai companies went into liquidation when it was merged in the Indian Union.

**Shri C. D. Deshmukh:** The hon. Member probably knows the reason. The total number of companies in 1943-44 was 13,689; in 1954-55, the provisional figure is 29,779. That is to say, the total number of companies

has more than doubled in these 11 or 12 years. The paid up capital of companies at work, that is to say, plus new registrations minus liquidations, was Rs. 354 crores in 1943-44, and in 1954-55, it was Rs. 983 crores. Now, I ask the hon. Member and the House to say whether any system under which the number of companies, the net number of companies, has more than doubled and the paid up capital has become nearly three-fold, is a system which is not in the interest of the country. All I am saying is that I am qualifying the statement that he made—that you can judge of the record of managing agents merely by these statistics of liquidation. I say that that is a fallacious line of reasoning.

Now, the other set of facts which I should like to give you are facts in connection with the part played by managing agents in financing or promoting, because two hon. Members opposite made the point that the contribution of managing agents to the paid up capital of companies, the managing agents' role in financing industrialisation, is a myth. The other hon. Member said that the system should be abolished; it is a dialectical reasoning—because private capitalists feel that they cannot work under the new system, therefore it should be abolished. But that is a separate argument. But as regards this argument about the facts of the case, the position is that we have examined the statistics of 1720 companies managed by 1340 managing agencies which cover a large proportion of the bigger managing agency firms. It was found that out of the paid up capital of Rs. 251.21 crores, the managing agents had contributed Rs. 29.26 crores, being 13.60 per cent. of the aggregate paid up capital of these companies. Now, as regards loans and advances made or guaranteed by the managing agents, they amounted to a little over Rs. 18 crores in a total of Rs. 76.45 crores of all kinds of loans and advances, which gives a percentage of 23.95. These figures relate, as I said,

[Shri C. D. Deshmukh]  
to 1720 companies and to the year 1951-52. Therefore, it seems to me that it is wrong to assert that the contribution of managing agents to the promotion or financing of companies is a myth. Anything in the nature of nearly 15 per cent. of the original capital or about 25 per cent. in the loans and advances could hardly be regarded as a myth or phantom.

**Shri C. C. Shah** (Gohilwad-Sorath): Are there no separate figures for loans made by managing agents and loans guaranteed by managing agents? The figure given relates to the two put together.

**Shri C. D. Deshmukh**: Yes. I am giving the separate figures. Rs. 10.54 crores is the figure of loans and advances made by managing agents, Rs. 7.77 crores is the figure of loans guaranteed by managing agents.

**Shri K. P. Tripathi**: Is it not a fact that Government are at present advancing far more capital than the entire capital advanced by managing agents each year?

**Shri C. D. Deshmukh**: I doubt it. Hon. Members have referred to various corporations—the Industrial Finance Corporation and various State corporations—and they have also referred to some of these special loans made. Now, the special loans are in a special category, because they are out of the equalisation fund which is the result of tapping the difference between the selling price and the retention price. But apart from these, I should say that the total loans made by Government are not of this dimension. These figures relate to one year. I have no reason to assume that these figures are extraordinary, that is to say, abnormal for that particular year. Therefore, if one assumes that they find about Rs. 18 to Rs. 20 crores per year, then I should say that the finance advanced by Government does not even come to one-fourth or one-fifth.

**Shri T. S. A. Chettiar** (Tiruppur): What is the proportion to the total investment?

**Mr. Deputy-Speaker**: Let the hon. Minister be allowed to proceed in his own way.

**Shri C. D. Deshmukh**: I only give these figures without making any point. We are not sitting here in a full inquisition on this.

**Shri Gadgil**: They have done a little, not much, however.

**Shri C. D. Deshmukh**: That is a matter of opinion. I am only saying that this is not a myth or a phantom and that if one were to eliminate the managing agency system one would have to find so much or induce banks to give finance to the extent of the Rs. 8 crores or Rs. 20 crores. One would also have to find about 15 per cent. of the capital of new promotions.

**Mr. Deputy-Speaker**: May I make one suggestion? I do not know how far the hon. Finance Minister will agree. In view of certain questions being put on facts, and as it is possible that the hon. Minister may be able to gather much better information than the hon. Members here and as the managing agencies clauses will come up later on, hon. Members may send their questions to the office here and they will be passed on to the hon. Minister and the figures may be collected and.....

**Shri T. S. A. Chettiar**: May be circulated.

**Mr. Deputy-Speaker**: .... and may be circulated later on before we come to these clauses.

**Shri C. D. Deshmukh**: I shall do my best and give whatever information is available with me. That is why I have circulated this statement here. We should have circulated this earlier had I not been under some wrong impression. It is my mistake. I thought what was available to the Joint Select Committee had all been printed here. But, apparently, some matters, these statements and other things, have

not been printed. That is why I say I shall be glad to supply whatever figures I can because they take up a lot of time. Hon. Members can read the figures and I need not take up much time of the House in giving facts. The House should be concerned more with arguments. I understand that, Sir.

Therefore, so far as the general advantage of the managing agency system is concerned, one can, of course come to the conclusion that it is not established that it is of no advantage whatsoever and that is the only decision which we want in this case. If that decision is taken, then one can come to certain conclusions. If one were to find here that there is no part to speak in promotion, that there is no part in financing, then, certainly, it would be very difficult to justify the continuance of a particular form of management. All that I would like to say is that it is a natural growth, in the sense that someone with experience of business management comes along to the public and says, 'I wish to assist you in the floating of a company. I have experience in managing companies. I have also a little money which I am prepared to put into this company as a proof of my *bona fides*. I shall sink or swim with you. That will not be an insignificant percentage; it will run to about 15 per cent. All I require in return is the privilege to look after your company for ten or fifteen years on terms which may be sanctioned by the law from time to time'. And secondly, 'since I have a little stake in the company, I would like, by agreement to have a right to nominate a couple of people to the Board of Directors.' Now, I cannot see anything unnatural in an arrangement of this kind. That is the kind of arrangement which we think of when we give loans to companies. And, indeed, the House insists that when we give a loan to a company we should insist that government directors are nominated there. Now, what is sauce for the goose must be sauce for the gander also.

**Shri Gadgil:** It is something more that the goose has got.

**Shri C. D. Deshmukh:** It is nothing more. There is absolutely nothing more that the managing agents get. They get only the right to manage and they get a right to nominate. There were other things which were excrescences. It is not part of my case to say that there were no abuses and that there were no excrescences. I shall not vie with hon. Members in inventing theories and turning this into a *panch tantra* or *hitopadesha* (*Interruption*). What I am saying is that there were abuses and we yet want to extract the best out of people who are or who would be prepared to place their experience at our disposal. I say that that is in conformity with the genius of our country. This is a kind of non-violence in economic matters.

**Shri Gadgil:** Quoting scripture.

**Shri C. D. Deshmukh:** I appeal to the hon. Members at least on this side of the House—I know I cannot appeal to the Members on the other side—that they will consider the implication of this non-violence. I say a man has to be satisfied if he gets some one hostile to work for him with understanding. A very noble example was set up by the late Sardar Vallabhbhai Patel who helped to integrate the States on the political field. (*Interruption*) There was a great possibility of conflict but yet without shedding a drop of blood all India was integrated. I say, without metaphorically shedding a drop of blood in the economic field, if you can get men of experience to collaborate with you (*Shri Gadgil: Non-violent liquidation*) in the economic development of the country, I do not see why you should not try to take advantage of it. That is the rationale of the provisions that have been suggested by the Select Committee.

Now, I shall come to rewards; that is to say, to remuneration. Hon. Members have made various statements; that in the U.S.A. they get one



[Shri C. D. Deshmukh]

or two per cent. and they get, according to the Taxation Enquiry Commission, 14 per cent. and so on. So far as the U.S.A. and the U.K. are concerned, hon. Members are not well informed. I have got the figures but have not got the time. They run to 10 per cent. in some cases. In a Canadian company they run to 24 per cent. Therefore, you may say that the figures vary between 10 and 24 per cent. So far as our country is concerned, there are the figures given in the Reserve Bank Bulletin which show that on what would be net profits according to our definition, the managing agents have, during the three years, 1950, 1951 and 1952, received about 27.7 per cent. of the net profits. Now, these are going to be reduced to 10 per cent. I must remind hon. Members that 27.7 per cent. is the actual and 10 per cent. is the maximum. Therefore I expect that if we were to foresee the future and take the figures for 1955, 1956 and 1957, it won't be 10, we may find it at 8. I suggest therefore that to reduce the rewards or remuneration of any one from 27 to 8 per cent. is an achievement to be proud of, an achievement which would be fully in conformity with the socialistic pattern of society which we are trying to introduce.

Moreover, this is not the only way in which we are going to attack remuneration. It is the income that would accrue to them. There is the general fiscal policy, which is common not only to managing agents but to everybody in regard to income. And, the House knows the direction in which we are proceeding. Then, there is the Estate Duty and so on and so forth. What I am saying is that it is unnecessary to concentrate all the penalties of all our fiscal measures into this particular Bill because we are suspicious of their record, or we disapprove of their record and we are suspicious of the righteousness of their conduct in future. In other words, one must preserve a sense of perspective.

**Acharya Kripalani (Bhagalpur cum Purnea):** One must also learn from history.

**Shri C. D. Deshmukh:** I want to point out that this 10 per cent. compares with 5 per cent. plus salaries for the managing director and 7½ per cent. for the secretaries and treasurers. Hon. Members may ask: why this difference? The managing director is a single individual and I think that 5 per cent. plus salary will do. He has no responsibility in regard to promotion; he has no responsibility in regard to financing and he is just one person. If he is brilliant in one direction, it is possible that he lacks in some other direction. If he is a good production engineer, possibly he is a bad financier. Now, the secretary and the treasurer, as I pointed out the other day, is a corporate manager; that is to say, he is a many-sided manager. You get 6 persons and put them all together. There may be a financial expert, there may be a production engineer, there may be someone else who has passed out of the business school at Harvard or which may be established here from which he has secured a diploma or degree. There is no reason why our young people should not get together after being trained in business administration and should not start firms of corporate managers, that is to say, secretaries and treasurers. They will say that they have no money but they have the ability, that they have the talent not the talons—no money; they might offer to manage companies for people in a kind of more multi-sided excellence or competence than a single individual can and I think in consideration of that 7½ per cent. is not too high a figure for secretaries and treasurers. There is the difference of 2½ per cent. between secretaries and treasurers and managing agents. I would say that anyone who puts in about 10 to 15 per cent.—I am only taking the average figure—and who is generally taking the responsibility of finding finance not only for

the block capital but also working capital and in tight corners and so on and so forth, might well be said to be entitled to another 2½ per cent. for the general responsibility that rests on him as he guarantees loans etc. Again I think the scheme is a very equitable one considering from that point of view, apart from the relative point of view which I mentioned earlier.

Incidentally, therefore, I have given the attributes of the different forms of management. There is the managing director with that remuneration but no particular responsibility except to supervise the affairs of the company. Then there are secretaries and treasurers who are corporate managers and who again have no responsibility and—what is more—who are prohibited from nominating any director on the board of directors. It is another matter if by virtue of their holding in a company they secure directors. That is true even of managing agents and that is true of anyone. If anyone holds 30 to 40 per cent. shares in a company, then I for one do not see any reason why he should not have, not exactly a proportionate, but a comparable representation on the board of the company. Then there are the managing agents; they have no superior rights of management. Their remuneration, as I said, will be fixed, and the only right that they will have is that of nominating directors under clause 377 or some other clause, and if they have that right, then they are forbidden even to get their associates on the company where they are given this right to nominate. The Select Committee has inserted a provision that in that case the associates will be barred from being represented on the company.

I come to general curbs. These are not directed against managing agents particularly. There are a large number of prohibitions and so on which apply to everyone—boards of directors, managers, managing agents, those who bring out the prospectus and so on and so forth. There are only a few special curbs which are put principally on the managing

agents; they also include managing directors and managers; they were introduced in 1951. All that the Joint Committee has done is to realise that these curbs, will be required not only for the three years but permanently. It is the suggestion of the Joint Committee that they should be embodied in the main part of the Bill instead of being left in the schedule, as was the scheme of the original Bill. If the House considers that the board of directors should have a representation of almost everybody who is interested—some people have suggested creditors; some people have suggested labour—then is it not strange logic to deny the opportunity to those, who may have a significant share of the company and who are interested in its working to have a small representation on the company? That is only if there is an agreement between them. In view of this, I feel that the Joint Committee's scheme is a very wise one. They have taken note of the fact that in the past many managing agents have been guilty of malpractices. They have also taken note of the fact that slowly promotional and financing activities have not remained the sole preserve of the managing agents. There are new institutions coming up and perhaps new methods of promotion, but the growth of all these will take a little time. The State Finance Corporation, for instance, has just started. Perhaps some of them have issued their first year's report, but they have a long way to go yet before they cover even a part of the field which is for them to cover because there is a division of fields, not by law perhaps but by understanding or convention between the State Finance Corporations and the Central Industrial Finance Corporation. Taking notice of these two facts, the Joint Committee thought that it would be good to investigate patiently and with expert assistance the case of industries as a whole to find out whether the state of industry is such that it requires any special encouragement to promotional efforts or to financing activities. If after investigating all the circumstances of an

[Shri C. D. Deshmukh:]

industry and, as has been suggested, with the advice of the advisory commission, they come to the conclusion that it is no longer necessary in a particular industry to have this peculiar system of management, in that case Government has power to declare that there shall be no more managing agency in that industry. But by inference it follows that in the other industries where after investigation you find that there is room for promotional effort or for financing activities, you should not discard a method which has been found to be useful and for which you expect some use in the future.

Therefore, one goes to the next provision which is approval of individual managing agents, obviously by implication, in industries which are not notified and, therefore, industries in which there may be some use for managing agents. The Joint Committee thought that the thing of which one ought to be certain is whether the record of the managing agent is good, whether he is properly qualified, whether he has fulfilled any of the conditions which may have been prescribed by the Central authority. But all the time, the main criterion will be: in what way can the interest of the country and the advancement of industries in the private sector be achieved? If the answer is that in a particular industry or in a particular concern it looks desirable, after having considered all the facts of the case, to continue it for whatever time they may decide, then I see nothing wrong in Government taking powers so to continue that managing agency. Hon. Members have asked whether the language of the Bill, as reported, does or does not show a bias or does or does not show an intention to abolish it. I say that all judgment is premature, certainly the judgment that it is here and now decided to abolish or quench the managing agency system all over, in all industries. There is nothing in the language of the provisions here to justify that, but I am free to say that it will

be for anyone to infer, both from the speeches made here and from what has been written outside in the country and spoken, that there is a general bias here against the managing agents, and therefore the onus will lie very heavily on them to prove that if they are allowed to continue, they will be able to further the economic interests of the country. I suggest that it would not be wrong to allow the matter to rest there.

Certain hon. Members have asked what we are doing in the meanwhile, —in view of the bias, shall we say— to encourage other forms of management. I invite the attention of the House to the specific provision made in regard to secretaries and treasurers.

1 P.M.

As I said, secretaries and treasurers are nothing more than a competent body of corporate managers. They may have no financial stake in that company. The remuneration will be less than that of the managing agents. Most of the disabilities of the managing agents will apply to them. There are certain further disabilities which have been imposed on them—that is to say, they cannot nominate a director, they cannot have the right to purchase or sell goods except when authorised by a special resolution and so on. Section 383 deals with this. There are three or four such disabilities and there are certain general disabilities. But here is a way out for those who have no finance or who do not wish to engage their funds on what they regard as unsatisfactory terms; for them it is open to say: "all that we are out to do is to hire out the service of any willing person". I see nothing wrong in allowing them to continue. It is my hope and I believe it is shared by others—that in course of time we shall have a body of secretaries and treasurers who will not arise from the traditional class. It will be open to many of our bright young men to club together and to offer their services as secretaries and treasurers. All institutions

take time to grow. I do not expect that the law will come into force much before April 1960, because we have to make the rules and perfect our administrative machinery and so on. That means that there is a period—only a little over four years. It is not too long a time in which to allow people to make up their minds as to what they will do. We have a saying in Marathi.....

**Shri Gadgil:** Is there anything to prevent the present members of the managing agency to discontinue the managing agency and to become managers corporate?

**Shri C. D. Deshmukh:** Nothing at all. There is everything to encourage them. I was saying that there was a saying in Marathi "द्रोषधावाचून खोकना गला" which means 'we have got rid of our cough without medicine'. I say under this system you do not want any such medicine. In 1960 we shall have a look at the matter again. We shall see what has happened in the country. We will have taken decisions in regard to certain industries. We shall look to their records. We shall see how the economic power is being concentrated. If we find that a particular managing agent has in spite of this sword of Damocles hanging above him gone on acquiring economic influence to the common detriment then it would be open to us and to the Government to say that we do not think it is in the interests of the country to continue the managing agency. He has no appeal against it; that decision is final. Therefore, I say that there is nothing wrong and everything to commend in this scheme that has been put forward by the Joint Committee.

There is a point. Perhaps I may take it up a little later when I come to the clauses—that is, in regard to the secretary and treasurer. There is no risk of concentration of economic power for the simple reason that he will have no power—no greater power than the managing director or the general manager. They are merely corporate managers. Therefore, the

only phenomenon that you would like to guard against is the concentration of economic power in the hands of managing agents. There, I am free to concede a limited taint—a kind of token limit in the sense that we do not know what that taint is. It may mean a total paid-up capital of Rs. 50 lakhs or it may mean a capital of Rs. 50 crores. We do not know yet. All that we know is that many managing agents have expanded their domain—say, from fifteen companies in 1945 to thirty companies in 1954. There are about five or six examples. Those managing agents will now have to do something in a hurry—either drop some of them or to amalgamate or adopt any other course that may be open to them. This is the first indication of our desire to watch the situation and there will be four years in which we can watch it. Under the new department that we are bringing into being, we shall have perfected the machinery for collecting statistics of all kinds. I think there is already a law which enables the Commerce and Industry Ministry to call for almost any statistics concerning industry. If necessary, that law can be reinforced and strengthened. I have, therefore, no doubt that by August 1960 we shall be in full possession of all the facts in regard to the affairs of companies managed by managing agents as well as other forms of management. It would then be wise to take a decision which would further the interests of the country in a proper manner.

**Shri K. P. Tripathi:** Does it mean that before 1960 no action at all is contemplated?

**Shri C. D. Deshmukh:** So far as notifying of industries is concerned, there is no limit. You may begin action tomorrow or in a year's time. It will take sometime to investigate. After that, you will give three years according to the provisions of the Bill. Even if you start investigation now, by that time the period of notice is over. I am assuming that in these three or four years no great changes will take place. I may also warn the

[Shri C. D. Deshmukh]

House that with a big Plan on hand, I doubt if, except for very strong reasons, Government will come to the conclusion in the middle of the Plan period that a certain industry should not have managing agents. That will all depend on how the Plan goes and how the amended Bill works.

**Shri Gadgil:** Whether this particular form of management exists or does not exist—that does not affect the Plan.

**Shri C. D. Deshmukh:** That is my view and this is the best judgment of Government as far as I understand. This is the judgment of the majority of the Members of the House.

**Shri C. C. Shah:** Is there any provision in the present clauses relating to secretary and treasurer by which they will have no economic power or financial control over the companies they manage?

**Shri C. D. Deshmukh:** I do not think there is anything to encourage it except that if the secretaries and treasurers choose to buy shares of a company, then it is open to them to have economic power. I say that you could not object to economic power purchased with consideration. We are referring to concentration of economic power otherwise.

**Shri C. C. Shah:** Is it not the same case with the managing agents? They have their controlling interest in the management and that is their economic power.

**Shri C. D. Deshmukh:** No Sir. The point is that the managing agents having any minimum holding in the managed company are allowed to have economic power over the company by virtue of the directors that they nominate. If they did not nominate directors, they would have no more power than on an individual basis. Men may capture economic power by other things than money. I am sure my hon. friend will capture economic power by his sweet reasonableness and his eloquence. Those are

other ways of capturing economic power. But so far as the scheme of the Act is concerned, there are no ways open to a manager or a managing director or the secretary or treasurer to acquire and concentrate economic power. He can only say: "we are seven; it means we can take on a number of industries to manage." Instead of one man we allow two companies to one man—the managing director here. It may be that there are, as I said, five or six talented people and they will say "we can manage 10, 11 or 12 companies", whatever may the number be. I see no danger in secretaries and treasurers being allowed to manage as many companies as they can having regard to the organisation of their particular group.

**Shri C. C. Shah:** May I put one more question? Is there anything in the present provisions to see that the secretaries and treasurers will consist only of persons who are men of technical competence and not financiers?

**Shri C. D. Deshmukh:** I say that all the secretaries and treasurers are new hands. In other words, I am assuming that there are hardly any. There are very few in the south, I am told.

**Shri Natesan (Tiruvallur):** Am I right in thinking that the secretaries and treasurers are not going to take up financial responsibilities for concerns which they wish to take over?

**Shri Gadgil:** If they are prevented from having any holdings beyond a certain limit in the shares, we can understand. If you say that there is no limit indirectly, what is happening through the managing agents will happen.

**Shri C. D. Deshmukh:** I really cannot understand this point. Is the hon. Member saying that a man may buy 60 per cent. of the shares but he should not be allowed to have any voice in the management of the company because he is designed to be the secretary or treasurer? I do not accept the proposition that a person who

buys shares should not have the rights that go with those shares.

**Shri Gadgil:** The genuine fear is that the very evils will be repeated in a different set-up.

**Shri C. D. Deshmukh:** They will be two different events. Here, as I say, we are dealing with his moral stake and a disproportionate voice in the management of the managed company. That phenomenon is not likely to recur under any other system.

I have dealt generally with some of these matters. I should now proceed to some of the other matters to which hon. Members have drawn attention. The next question is about Government powers because they have a bearing on the character of the administration which was the other matter in which hon. Members were particularly interested. There are about 34 sections under which the Central Government has to exercise powers. We have divided them into 4 categories. There is one—many of them are old ones—section the powers of which are important in the sense that they cannot be delegated, like power to empower District Courts to exercise jurisdiction, power to exempt a company from the operation of Schedule VI—I am only giving some illustrations—then there is power to appoint inspectors on application and various other sections about inspection. Then there is power to declare that the management of a company is accustomed to act in accordance with the instructions of the managing agent of another company. This is a section the interpretation of which is very difficult and that comes in connection with investing and interlocking of funds. Then there is also power to appoint an official liquidator. These are a kind of law and order powers and I suggest that these cannot possibly be handed over or delegated to an advisory commission or a statutory commission.

Then there are other powers which may be delegated to the executive head to the extent to which they may

be delegated; it makes no difference whether there is a statutory commission at the Centre or whether there is a Central Department.

I am sorry, I forgot to mention that in the first category there are 21 sections and those, I think everyone will agree, ought to be exercised by the Government.

In the second category there are 34 sections in which the powers can be delegated like the power to declare that an establishment shall not be treated as a branch office. It is not a very important power; we can allow a registrar generally, if there is one, to declare that. Then there is power to appoint auditors—may be, that is a power which ought to be exercised by the Government. Power to remove disqualification of managers is again an important power and to a certain extent it may be delegated. Then there are powers to prevent destruction of books, right to receive fees paid to registrars, so on and so forth.

In the third category there are important sections where there are powers to alter schedules. Obviously the House will not like these powers to be exercised by a statutory commission. In this is also included the power to make rules. Then there is immunity for action taken in good faith; this is essentially a sovereign power and cannot be transferred to a statutory commission. There is also power to appoint registrars. Obviously, you cannot allow a statutory commission to appoint registrars. These are 21 powers and they, I suggest, must only be exercised by the Central Government.

That leaves certain powers which, mostly, we have already been exercising under the amended Act of 1951. The House will remember that in 1951 we took various powers in regard to approval or changes in the position of managing agents to file a suit against a company on the application of a minority in a case of alleged oppression and so on. These are about 18 powers. They include approval to appointment of managing director.

[Shri C. D. Deshmukh]

They also include powers to notify an industry. I cannot imagine any government handing over the power to notify an industry to a statutory commission. There are other powers also like this.

There is another observation which I would like to make. That is, here is a matter where extremes meet. I think many members of the Bhabha Committee who agreed in the recommendation that there should be a statutory commission were rather hoping that business would be represented on such a statutory commission.

**Shri Gadgil:** Only hoping.

**Shri C. D. Deshmukh:** On the other hand the Members who now are advocating that there should be a statutory commission hope that they will only be economists, chartered accountants and others. I am not in a position to satisfy the one or the other. I shall see that people who are best qualified to advise are appointed on the advisory commission. That being so, it seems to me that it is wrong to turn that into a statutory commission. Certainly, we can call on them for advice in whatever matter we choose to refer to them. I suggest there is no case whatsoever for considering this matter and I am amazed at the persistence with which it is urged by hon. Members, because I see different men expect different things out of the statutory commission. Therefore, it will be the subject of speculation as to who is going to be appointed. If a business man is appointed people will say: "Good Lord, what has been done? There is a statutory commission now and we cannot trust it." The same Members will come again and say: "That is very wrong. Government should take over these powers." If on the other hand someone else is appointed the whole business-world would be up in arms and they will say: "Are our fortunes to be entirely at the mercy of a statutory commission?" Therefore, I suggest here that the entire scheme that has been put

forward by the Joint Committee is a very wise scheme.

Now that I am on the subject of administration I should like to give some information to the House in regard to what we are doing currently for building up this administration and what the history of the administration was before, because people have rushed to the conclusion, again purely on historical grounds, that because the administration was weak in the past it is bound to remain weak in the future.

**Shri Matthen (Thiruvellah):** Not 'weak'; there was no administration.

**Shri C. D. Deshmukh:** That might be the case; quite right. It is not my business to defend the past administration either. The Indian Companies Act was administered up to 1st of October, 1953 by State Governments on behalf of the Central Government on an agency basis. This meant that till the 1st of October, 1953 the functions of the Government under the Act were carried out by the State Governments. The Registrars of joint stock companies were also appointed by the State Governments. The registrars and the staff were technically employees of the State Governments but the cost of administration used to be met from the Central revenues and in many cases they were not whole-time officers; they had other responsibilities. Only in Calcutta, Bombay and Lucknow there were whole-time registrars. In some of the States some separate staff was provided by the State Governments for administration of the Company Law and in others even the staff used to be part-time, being employed on other duties as well.

In Part B States the position was a little different up to 1st April, 1951 because they had their own laws which more or less corresponded to the Indian Companies Act. But, in these States also full-time registrars were an exception rather than the rule and the administration suffered from want of adequate trained personnel. From the 1st April, 1951,

the Central law was extended to all Part B States but the administration continued to be in the hands of the States, though it was now on an agency basis. So, it was on the 1st October, 1953 that the delegation was cancelled and the administration of the Act was taken over by the Central Government who, from then on, have been exercising the functions of the Government under the Act. It was, however, not possible to take over the administrative control of the registrars and their offices till arrangements were made to man the various posts with suitable personnel and the registrars and their staff continued to be employees of the State Government\* till the 1st January, 1955 when the administrative machinery was also taken over by the Central Government. From that date—that is to say, for the last seven months—the registrars and staff in all important States are Central Government servants employed full-time on Company Law administration. For the other States the posts of registrars have been advertised and recruitment is being made through the Public Service Commission. The offices of the registrars have also been inspected by the officers of the Ministry and adequate arrangements have been made for strengthening their offices by providing necessary officers and staff—both technical and others. For liaison between the companies and the central administrative authority and for the dissemination of necessary information required by companies on Company Law matters, the country has been divided at present into four regions, with headquarters at Madras, Bombay, Calcutta and Delhi respectively. Each of these outlying regions will be headed by a director who will be assisted by a company accountant and a company solicitor. The directorate will maintain not only close liaison between the States and the Central Government but also will be able to help companies generally by giving them information and advice which they may require about the provisions of the law. A director has

229 LSD.—2.

already been appointed for the Madras region and suitable senior officers are being considered for appointment as directors in the other regions. As soon as these appointments are made, these local organisations will be in a position to render all possible assistance to the companies situated in the respective regions. The central organisation which has been set up only with a nucleus staff is now being strengthened with the formation of the new department of Company Law Administration from the beginning of this month and provision of required technical and administrative personnel is being made. It is my hope that after the department has been fully built up, it will be adequately equipped to undertake the heavy responsibilities which will devolve on Government under the new Act. I have not got much time to elaborate on this matter but there is one observation I should like to make, and that is, some of these powers are of a formal nature, some of them have been taken over from the 1951 amendment which is now being sought to be made permanent, but the few there are, are powers to enable Government to deal with special cases. The reason is this. According to the scheme of the Bill, we felt that although that scheme might suit the generality of cases, there might be certain instances in which an exception must be made. Now, the alternatives were either to change the general scheme so as to water it down in order to suit the special cases or to leave the general scheme in its original rigidity but to give powers to the Central Government to sift the circumstances of that particular special case and to pass appropriate orders accordingly. I should think that the latter alternative was much more the suitable one, because the other alternative would have been weakening the general structure of that particular provision. For instance, the provision in regard to investment in companies managed by the same group.

We have laid down certain percentages. It was pointed out to us that if



[Shri C. D. Deshmukh]

we adhered to those percentages we might hinder very significantly the expansion of industry *vis-a-vis* the private sector. Therefore, the question before the Committee was how to deal with this matter, and I think they have hit on a very good remedy provided hon. Members credit Government with a modicum of honesty and a sense of responsibility. If they do not, then there is no common platform on which to argue this case with them; if they do, then I am quite certain that they will approve of the arrangement that has been suggested.

There are provisions in regard to audit and accounts. Probably it would be best for one to deal with them when one came to those provisions. There are matters like this: whether there should be individual auditors or not, what will be the number of auditors and whether Government should take the responsibility of appointing government auditors to all concerns and in particular to audit all government companies. In regard to that, I shall give notice of amendments which reflect an agreement between the Comptroller and Auditor-General and the Finance Ministry or Government in regard to these matters and I am hoping that we shall be able to convince the House that these are suitable amendments. There are several issues in regard to directors, capital structure, voting rights, foreign companies, private companies and so on. But, as I said, I shall have the opportunity of dealing with these matters, bearing in mind the observation made by hon. Members, when I come to the clauses. We shall have a lot to say on this, and I shall perhaps be able to deal with those points far more elaborately than if I were to attempt to deal with them during the few minutes that are left to me.

There is one matter to which, however, I would like to make a reference, and that is, the workers' participation. Hon. Members are perhaps aware, because it was mentioned in the House the other day,

that the Labour Ministry have circulated some kind of paper to the Planning Commission in regard to this matter. That paper is under the consideration of the Planning Commission. When the recommendations of the Planning Commission are received by Government, then they would be considered by the Cabinet. It is only then that we shall be in a position to know in what form exactly one would be able to take notice of this demand that there should be some form of workers' participation in industrial enterprise. Just as in the case of the State Bank of India Bill, so also in this Bill, I confess my inability to deal with this matter on merits here and now for the simple reason that I cannot profess to represent the Government view in the matter nor can the Labour Minister nor myself for the matter of that. We all generally in a vague way feel that something ought to be done but this is a matter in which one would have to be guided not only by the theories and principles but also the feasibility of the situation here.

**Shri K. P. Tripathi:** Is there any chance of that decision being made by the Planning Commission before this Bill is passed here?

**Shri C. D. Deshmukh:** There is no chance whatsoever; I am sorry. The Planning Commission have a very large number of things in their hands. There is the question of how to reconcile plans of Rs. 8,000 crores or Rs. 9,000 crores with a plan-frame of Rs. 4,300 crores, and they are having daily meetings with the State Governments and the Central Ministries and so on and so forth. So I think hon. Members will have to hold their souls in patience, but when a decision is taken, it should not be beyond our wits and beyond our resources to implement it in an appropriate manner.

I have come nearly to the end of the time allowed to me. Therefore, I

should like to close, as I said yesterday to the hon. Member sitting opposite, by saying that I regard this Companies Bill as a *Nigama Chaturvimsati Chintamani*. *Nigama* is company. There was a Prime Minister, Vikram, with the Yadava kings. Not only was he a good Prime Minister but he was also an expert in building temples. Not only was he an expert in building temples but he was also a very learned man, and he composed a book called *Nigama Chaturvimsati Chintamani*, which laid down all the *Samskaras* for human beings, from the womb to the tomb, from birth to death, from the cradle to the grave and from conception to liquidation. This Companies Bill is in the nature of a *Nigama Chaturvimsati Chintamani*, and I do hope that it will succeed in bringing all the desirable *samskaras* to those who take part in *nigamas*.

**Shri Gadgil:** It did not provide for sterilisation!

**Mr. Deputy-Speaker:** The question is:

"That the Bill to consolidate and amend the law relating to companies and certain other associations, as reported by the Joint Committee, be taken into consideration".

*The motion was adopted.*

**Shri C. C. Shah:** I request that a copy of the speech made by the Finance Minister may be circulated to all the Members.

**Mr. Deputy-Speaker:** I will ask the office.

**Shri D. C. Sharma (Hoshiarpur):** . . . . . and also the book to which the Finance Minister referred!

#### MOTION RE REPORT OF PRESS COMMISSION

**The Minister of Information and Broadcasting (Dr. Keskar):** I beg to move:

"That the Report of the Press Commission be taken into consideration".

The report of the Press Commission—I mean by that not only the main report but also the two other volumes which can be considered to be accessories to the report, has been circulated to Members. It has also been circulated to the State Governments and the various interests concerned, and they have had ample time to consider this matter very carefully. In asking this House to consider and debate this report, I would not like, at the very beginning, to try to put forward my own views or the tentative conclusions that the Government have reached about the various matters connected with the report, because I feel it would be rather unfair for me to come to any such conclusion before having heard the considered views of eminent Members assembled here who have also given thought to this subject. I would like, at the outset, to mention a few facts concerning the Press Commission itself, in order to emphasise the importance of the report itself and the matters with which it is dealing.

As you know, it was in October, 1952 that we appointed the Commission. The terms of reference of the Commission were sufficiently wide to cover practically all aspects of the press. Briefly speaking, they covered the financial and organisational structure of the industry, the working of chains and monopolies in newspapers, external factors tending to influence the press, the service conditions of the working journalists, the adequacy of supplies for the industry, maintenance of high standards of journalism, etc. Most of the matters pertaining to the press, not only as a medium of communication and information, but also as an industry employing a large