A COMPARATIVE STUDY OF PUBLIC CORPORATIONS IN PAKISTAN, INDIA AND UK

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ABSTRACT

Public corporation as a vehicle of increased government participation in the economic activities, in developing countries, has gained recognition in the past twenty years. In both Pakistan and India it has become a major tool of planned economic development. The operations of the public corporation, however, have been beset by a variety of problems which have been hampering its full effectiveness. Previous studies of these problems have not resulted in very workable solutions.

A comparative study of public corporations in India, Pakistan, U.K. and U.S.A. has been made, and solutions for problems facing public corporations in Pakistan and India have been proposed.

It has been found in this study that the operations of public corporations in Pakistan and India are hindered by lack of trained personnel, lack of sufficient freedom in pursuing corporate policies, domination by civil servants and other government officials, lengthy project approval procedures of government and ministerial interference.

Proposed solutions engender a greater degree of freedom in pursuing corporate policies, minimization of government interference, recruitment of experienced and aggressive managers, and simplification of project approval procedures. Furthermore, the performance of public corporations should be periodically evaluated by a permanent expert committee.

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INTRODUCTION

Economic development has become, in recent years, an important policy of government all over the world - developed or developing. To achieve this policy objective one of the two systems, the socialist and the capitalist, has been adopted in one form or another. Neither of the systems is, however, practiced in its pure form by any country in the world. The most important single institution of the capitalist system or the free-enterprise system is the "corporation" which has been most successfully developed in the United States.

On the other hand, state ownership and management of industrial and commercial concerns generally characterize the socialist systems. The difference between these economic systems is getting more and more vague and the entry of governments into the creation and management of industrial and commercial fields in non-socialist countries is one of the most important factors in the diminishing difference between the two economic systems.

The three countries under study, Britain, India, and Pakistan, all belong to the capitalistic system but the first two are more socialistic in their outlook (Britain especially so under Labour Governments) than the last one. All three of them have used, or are using this new device of public corporation for the development of important sectors of their economies.

It is thought that something very much like the modern business corporation is inevitable in an industrializing society, whether it follows a capitalistic or a socialistic trend of economic development. As technology demands a large pool of capital, as managerial requirements are set by the problem of administering the efforts of many men, and as the discretion demanded for the effective conduct of an entrepreneurial function increases an organization like a business corporation appears to be a logical answer. In its operations, the business corporation has performed very well and has changed the economic as well as the political and social structure within countries.

It is this success of the private corporations coupled with the desire of the governments of various countries to industrialize rapidly that the corporate device has been adopted by so many countries in recent years.

Objectives and Methods of the Present Study

The number of public corporations has been increasing rapidly in developing countries like India and Pakistan. However, the number of comparative studies on the working of the public corporations in different countries is still very small. It is this fact that has inspired the present study. Specifically, the following are the objectives of the study:

1. to examine the importance of public corporations in the economy and their role as an effective tool of economic development;
2. to examine the problems which are faced in the working of public corporations in the three countries, especially in India and Pakistan;
3. to find the measures used in one or more countries which may be used effectively in other countries;
4. to assess the success or failure of the public corporate method of public enterprise in the countries under study, especially India and Pakistan; and
5. to draw some conclusions regarding the strong and weak features of public corporations as they are operating in India and Pakistan and to make

some recommendations for improving the operations and performance of the public corporations in India and Pakistan.

The present study covers the public corporations in the United Kingdom, the United States of America, India and Pakistan. However, not all public corporations in all these countries will be included in the discussion because of the large number of such corporations and also because of almost identical and similar structure and operation of public corporations of the same type in a country. Most representative and important cases will be given preference in the discussion but important variations, within each country as well as between countries, will be noted.

More emphasis will be given to the organization, operation and efficiency of public corporations in the two developing countries - Pakistan and India - each having followed the other in the setting up of similar types of public corporations. United Kingdom has been included because it has had a long experience in the operation of public corporations and more importantly because Pakistan and India have modeled their public corporations largely on the basis of British public corporations. The United States is included to provide a contrast to the types of corporations that have been set up in the two developing countries. Only one of the U.S.

public corporations will be refered to in the discussion because it is by far the most important in scale of operations and effect on the economic development of a vast region of the country.

The present study is not based on any primary data but on analysis of and deduction from existing studies, reports, and various other sources of information. As no comparative study of public corporations in the three countries has been attempted before, the present study may be of some value in the understanding and solution of various problems faced by public corporations in India and Pakistan.

A Brief Historical Background

The term "public corporation"[1] itself is of fairly recent origin although the idea of government sponsorship or nationalization of private industries is not new. But the term as we know it today developed only in 1926 when it was used in Britain in a report on broadcasting. Since then a large number of specialized public bodies have been created for various specific purposes. These are different from other Government organs of administration such as a department. These new organs of public adminis-

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[1]Public corporations bear various names such as "Commission", "Board", "Authority" and "Corporation" within the same general characteristics but with different functions.

tration spring from the need for a high degree of freedom, boldness and enterprise in the management of industrial and commercial concerns and the desire to avoid the slowing effects of caution and circumspection which is typical of government departments.

The first organization in Britain which may be included in the public corporations is the Port of London Authority which was established in 1908, and later followed, after the First World War, by a rapid succession of this type of organizations such as the Electricity Commission (1919), Forestry Commission (1919), British Broadcasting Corporation (1926), Central Electricity Board (1926), the London Passenger Transport Board (1933) and the British Overseas Airways Corporation (1939). In 1946, the Bank of England was nationalized and the National Coal Board was established. In recent years the Iron and Steel Corporation, the National Gas Council, the Atomic Energy Authority and others were created.

The first public corporation in the United States was the Bank of North America set up in 1781. Other public corporations came up from that time upto the beginning of this century such as the Smithsonian Institute (1846), the National Academy of Sciences (1863) and the Panama Railroad Company (1904). It was, however, only during and after the First World War that public corporations were set up in large numbers in the United States.

One characteristic feature of public corporations in the U.S. is that most of them were established as emergency instruments to cope with the war requirements and rehabilitation and reconstruction requirements after the Wars.[2] There are, of course, some public corporations which can claim more natural births. These include the Panama Railroad Company (1904), Inland Waterways Corporation (1924), and, of course, the Tennessee Valley Authority (1933).

Another notable thing about U.S. public corporations is that they are rapidly ceasing to exist whereas they are on the increase in other countries. This is because most of the emergency public corporations have been abolished or assimilated into the regular governmental pattern. This trend will probably continue in the near future.

A number of public corporations came into existence in India just after Independence in 1947. Some of these were planned before 1947. The Damodar Valley Corporation had been contemplated as early as 1863 but actually came into existence one year after Independence. In the same year the Reserve Bank of India, the Rehabilitation Finance Administration, the Employees' State Insurance Corporation and the Industrial Finance Corporation were set up as

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[2] The names of the corporations themselves indicate their nature and origin - United States Emergency Fleet Corporation, United States Housing Corporation, War Finance Corporation, Reconstruction Finance Corp.(1932), Home Owners Loan Corp.(1933), Defence Homes Corp.(1940), Rubber Development Corporation (1940).

public corporations. In later years more public corporations were created.[3] Three central development corporations were created in India between 1954 and 1955. They are the National Industrial Development Corporation, the Industrial Credit and Investment Corporation of India and the National Small Industries Corporation. The most important recent addition to the big list of public corporations in India is the Food Corporation of India.

At the time of its creation in 1947 Pakistan inherited a very small share of the industries and financial institutions in British India. As a result the country required a fast development of these institutions and the government naturally had to come forward to provide the basic facilities for economic growth. The instrument that the government chose for this purpose was the public corporation.

To meet the credit needs of industry the Industrial Finance Corporation(IFC)[4] was established in 1949, and the most important public corporation in Pakistan - the Pakistan Industrial Development Corporation was created

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[3]These include Air India International (1953), Indian Airlines Corporation (1953), State Bank of India (1955), Life Insurance Corporation of India (1956), National Co-operative Development and Warehousing Corporation (1957).

[4]A key to all the abbreviations used in this study is goven in Appendix A.

to increase the pace of industrialization in the country in 1950. The IFC was converted, in 1961, into the Industrial Development Bank of Pakistan(IDBP). The PIDC was bifurcated into the East Pakistan Industrial Development Corporation (EPIDC) and the West Pakistan Industrial Development Corporation (WPIDC) in 1962. The Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan were created in 1952 to assist the agriculturists of the country, but in February 1961 they were merged to form the present Agricultural Development Bank of Pakistan (ADBP). A large number of other public corporations, both central and provincial, came into existence after Independence (Appendix B) and the number is increasing every year. The Government has created two State Trading Corporations, one in each province, in November 1967 and is at present contemplating the creation of a new public corporation to be called National Jute Corporation.

The above short historical background of public corporations in the four countries under study shows that except for the United States all other countries have found the public corporation a suitable and effective tool for rapid economic development.

CHAPTER I

PUBLIC CORPORATIONS - PURPOSES AND PROBLEMS

Definition of public corporation

The definition of any concept presents some difficulties but this is more so in the case of public corporations. They differ from country to country in Board constitution, relations with Government, pricing policies and disposal of profits. It is, therefore, not possible to give a definition which will cover all situations. A public corporation is organized as a corporation but it is not exactly a business corporation. There are however, some basic characteristics common to all public corporations. On the basis of which, one writer has defined a public corporation as a "nationalized industry which is not organized as a department of Government, nor run by a local authority, nor given the joint stock company form and which operates on the principle of financial self-support."[1] This definition, however, stresses the negative sides and is, therefore, not satis-

[1] V.V. Ramanadham, Problems of Public Enterprise (Chicago: Quadrangle Books, 1959), pp. 10-11.

factory. It says what a public corporation is not rather that what it is. A more positive definition is one given by W. Friedmann who says that a public corporation is

> an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity; largely autonomous in its management, though responsible to the public, through government and parliament, and subject to some direction by the government; equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of a commercial enterprise.[2]

This definition is clearer but a bit too long. A very succinct definition of a public corporation is one given by President Truman of the U.S. in 1933. He defined it as "a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise."[3]

We may consider the above definitions adequate for our purpose in this discussion with the clarification that 'nationalized industries' in the first definition includes both new firms and industries created by the government and the old already existing ones taken over by the government. In Pakistan, India and the U.S. almost all the public corporations are newly created while most British ones are of the latter type.

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[2]W. Friedmann (ed.), Public Corporation, University of Toronto School of Law Comparative Law Series, Vol.I (Toronto: The Carswell Co. Ltd., 1954), p. 541.

[3]Quoted in W. Friedmann, "The Legal Status and Organization of the Public Corporation," Law and Contemporary Problems, XVI,No. 4, (Autumn 1951), p. 577.

Purposes of Incorporation

In discussing the purposes of incorporation or the use of the corporate device by the government two things immediately come to one's mind. They are the functions and characteristics of public corporations. However, these two important aspects of public corporation we shall postpone till the next chapter. Here we are concerned with the reasons why the corporate form has been chosen rather than any other form of public enterprise,

Many forms of organizational set-up may be adopted to administer the public enterprises in a country. Prof. Robson has classified them into seven different forms as listed below:[4]

(i) Government department or Ministry
(ii) Local Authority
(iii) Mixed Enterprise
(iv) Representative Trust
(v) Joint Stock Company
(vi) Regulatory Commission, and
(vii) Public Corporation.

According to Friedmann, who looks at public enterprises from the point of view of their structure, management and public accountability,

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[4]William A. Robson, Nationalized Industry and Public Ownership (2nd ed.; London: George Allen & Unwin Ltd., 1962), pp. 24-28.

> all these forms approximate to one of three main types: the first is administration by government department; the second is the joint stock company governed by company law but controlled by public authority as the principal shareholder; the third is the public corporation proper.[5]

The choice of one of these forms of public enterprise is obviously determined by the purpose(s) for which it is to be established. Prof. Hanson thinks that

> the main object of a public enterprise is to produce goods and provide services at the lowest possible cost and with the greatest possible satisfaction to the consuming public and this requires that the methods of private business should be adopted: flexible, enterprising commercial-type methods.[6]

This 'commercial-type' method is also emphasized by Chester who thinks that to make a public enterprise successful the management should be entrusted to competent businessmen within the most general form of control. "Able management" is the essence of public enterprise according to this writer.[7]

This attitude is, of course, very justified if the public enterprise is to provide a commercial product or service at a competitive price. But, if the purpose is

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[5] W. Friedmann, "A Theory of Public Industrial Enterprise," Public Enterprise, ed. A.H. Hanson (Brussels: International Institute of Administrative Sciences, 1954), pp.15-16.

[6] A.H. Hanson, Managerial Problems in Public Enterprise (Bombay: Asia Publishing House, 1962), p. 4.

[7] D.N. Chester, "Management of Nationalized Industries," Public Administration, XXX (Spring 1952), pp.27-47.

regulatory or subsidizing in nature then a regulatory body, commission or board would probably be more suitable.

Forms of Public Enterprise

The seven types of public enterprise have been mentioned above. A brief examination of each type is attempted here to put them in proper perspective.

The Local Authority, such as the Town Councils in England, is mainly concerned with public utilities in a certain city or area of a country and are really organs of the municipalities and, therefore, are not suitable for commercial operations except for monopoly items such as electricity, water and gas supply in a city.

The Regulatory Commissions are concerned with regulation and not production. Therefore, they are not alternatives to public corporations.

The Representative Trusts, such as the Port of London Authority, are really "public corporations of a special type"[8] and not separate form of public enterprise.

The Mixed Enterprise, "combination between public and private sectors,"[9] has been used in many countries including Pakistan where the Investment Corporation of

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[8]Robson, op.cit., p.27.

[9]Daniel Spencer, India, Mixed Enterprise and Western Business (The Hague: Martinus Nijhoff, 1959), p. 83.

Pakistan was created in 1966 as a mixed enterprise. In India the Industrial Finance Corporation is an example of a mixed enterprise. In England, according to Prof. Robson, the nationalization system has remained uncomplicated by the absence of mixed enterprises.[10]

The mixed enterprises are quite widespread and are set up on the assumption that the advantages of both public and private enterprises will be obtained. One big difficulty that arises in mixed enterprises, however, is the relationship between the public and private sectors in administration, finance, control and accountability. It is because of this complicated nature of mixed enterprises that the British Government has refrained from adopting them. However, in India and Pakistan, where many of the public corporations are really mixed enterprises, the problem has been solved by keeping the essential nature of public corporations while giving the private sector a minority representation in the administration and other aspects of operations.

The Joint Stock Company form is also quite widely used in many countries. This is quite evident in India where in 1961 there were 95 joint-stock companies in the

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[10] William A. Robson, "Nationalized Industries in in Britain and France," American Political Science Review, Vol. 44 (June 1950), pp. 308-309.

public sector.[11] The major advantage of this form is that it works exactly like any other joint-stock company and is therefore on the same footing with the private companies. But there are many disadvantages too as a public enterprise and they have been put quite strongly by Prof. Robson:[12]

> It is not created by Parliament or in any way answerable to it. It is not directly under the control of the Government except in so far as Ministers can control the membership of the board or influence their policy indirectly. Its activities and policies are sometimes carried on behind a thick smokescreen of secrecy which cancels much of what should be publicly known. Its policy is neither openly laid down in an Act of Parliament after public debate nor are there usually opprtunities for discussing it in the legislature. Its reports and accounts are either not published or are no more informative than those of commercial undertaking. Its corporate nature is often fictitious, since the ownership is usually vested in the Crown or in the Government. It is in no way an instrument of democratic socialism but is rather a device for avoiding public accountability and control.

It is because of these numerous demerits that joint-stock company form of public enterprise has not been introduced in Pakistan on a large-scale and on a permanent basis. Most of the joint-stock companies in Pakistan have been created by the Industrial Development Corporations of the two provinces and they are sold off to private interests, in accordance with the very successful Japanese example, as soon as they become running concerns. Pakistan Industrial

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[11] V.V. Ramanadham, The Structure of Public Enterprise in India (London: Asia Publishing House, 1961), Table 18, pp. 36-41.

[12] Robson, Nationalized Industry and Public Ownership, p. 28.

Credit and Investment Corporation, Pakistan Security Printing Corporation and Karachi Electric Supply Corporation are the only independent joint-stock companies in Pakistan. However, they are generally considered as public corporations in all government publications.

There are two basic characteristics of this form of public enterprise: one, it could be set up by a memorandum of association under the Company Law of a country; two, Government control could be exercised through the ownership of a majority of the shares.

These two characteristics, of course, give rise to much of the criticism leveled against the joint-stock company form which is not responsible to the Parliament. One point that is made with respect to this form of public enterprise is that it is really not much different from public corporations, and is almost the same as mixed enterprises, except for the legal status and accountability. This form is, however, useful in cases

> (a) where there is joint participation by public and private interests...; (b) where the state intervenes temporarily, with a definite intention of disposing of its holdings as soon as possible.[13]

The departmental organization for the management of public enterprises is not favorably considered by most people as the government departments are regarded as

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[13]Friedmann in Hanson, Public Enterprise, p. 19.

embodiments of "slowness, circumlocution, caution, excessive devotion to routine and precedent."[14] This form does not give the managerial flexibility needed for success as is quite evident in India and Pakistan. The lack of managerial training of civil servants and centralization of authority make it very difficult for a department to run a commercial enterprise successfully. Also, the strict financial control by the Auditor-General "increases the timidity of public servants at all levels, making them unwilling to take responsibility for decisions."[15] Departments also emphasize too much on uniformity of practice and are not used to competitive operations thus making them unsuitable for commercial operations. Other limitations include the following:[16]

(a) Permanent staff is subject to rules and regulations applicable to civil servants thereby preventing both promotion on merits and prompt disciplinary action where necessary;

(b) Tardy procedures for arranging funds, for instance, the necessity for getting sanctions for expenditure and other matters in every single case;

(c) Cash receipts to be put into Government account and cannot be taken out without special sanction;

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[14] Hanson, Managerial Problems in Public Enterprise, p. 3.

[15] P.H. Appleby, Re-examination of India's Administrative System With Special Reference to Administration of Government Industrial and Commercial Enterprises (New Delhi: Govt. of India, 1956), pp. 44-45.

[16] Report of the Subcommittee of the Congress Party in Parliament (Krishna Menon Report) on Parliamentary Supervision Over State Undertakings in India (1959), quoted in Hanson, Managerial Problems in Public Enterprise, pp. 17-18.

(d) The system of accounting;

(e) The departmental methods of purchase of raw materials and sale of products and so on.

One authority on public administration has expressed the consensus on the subject when he said "'over-centralized', 'over-coordinated', 'under-supervised' and 'under-propelled' administrative departments could not also take up public enterprise."[17]

Inspite of such strong criticism against departmental management of public enterprise it is still "the instrument for conducting postal services in all countries, and telephone and telegraph services in most of them."[18] The broadcasting services in Pakistan and India are still run by Government departments. Thus, despite criticism, "the administration of enterprises by government departments continues to play an important part in public life in many countries."[19]

One final point that must be noted is that most of the services managed by government departments are not strictly industrial or commercial in nature and are all run on a non-competitive and monopolistic basis where the question of financial efficiency is not very important.

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[17] Rowland A. Egger, Improvement of Public Administration in Pakistan (Karachi: Govt. of Pakistan, 1953), pp. 23-24.

[18] Robson, Nationalized Industry and Public Ownership, p. 24.

[19] Hanson, Public Enterprise, p. 16.

The Public Corporation, however, "is the most important invention of the twentieth century in the sphere of government institutions."[20] This is so because it "gives us the best of both worlds . . . we can combine progressive modern business management with a proper degree of public accountability."[21]

One obvious advantage of a public corporation is that this form of public enterprise usually allows more managerial flexibility in day-to-day operations. An incidental advantage is that it provides greater opportunities for the development of managerial skills at the intermediate and growing levels which have a great long-term benefit. A further advantage is that a corporation working on the commercial basis cannot conceal its weaknesses and its success is relatively easier to measure. A public corporation, being autonomous to a large extent, is less likely to become a political weapon in the hands of the party in power as long as there is stable government, opposition to the substitution of social policy for commercial principles and an elaborate and continuous political control. With the increasing size of the public sector the centralized decision-making, co-ordination and planning become

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[20]Robson, Nationalized Industry and Public Ownership, p. 28.

[21]Herbert Morrison's speech in the House of Commons Debate, May 6, 1946, quoted in Chester, Public Administration, XXX (Spring 1952), pp. 27-28.

difficult. In such a situation a corporation form is of decided advantage. According to Prof. Ramanadham,

> the corporation method has an invaluable political merit in a democracy where economic totalitarianism is far from being accepted as valuable. Even if the public sector is large or continually expanding, the corporation method minimizes the undue concentration of power in the hands of the cabinet or the ruling party.[22]

President Truman of the U.S. mentioned four situations where corporate form has clear-cut advantage over other forms of public enterprise: (a) when a government program is mainly of a business nature; (b) when it is revenue-producing and potentially self-sustaining; (c) when it involves a large number of business transactions with the private individuals or institutions; and (d) when it requires more flexibility than is allowed by the normal type of appropriation.[23]

Prof. Friedmann has recognized only two major motives for which a public corporation may be set up.

> One of these motives is practical necessity . . . to intervene, in the interest of the general development of the country, in ventures which private capital is either not willing or not able to launch . . . . The other main inspiration is political philosophy.[24]

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[22] Ramanadham, <u>Problems of Public Enterprise</u>, p. 26.

[23] U.S. President 1945-53 (Harry S. Truman), <u>Budget Message to the Congress in 1948</u>, quoted in L.D. White, <u>Introduction to the Study of Public Administration</u> (4th ed.; New York: The MacMillan Company, 1955), p. 130.

[24] Friedmann, <u>The Public Corporation</u>, pp. 542-544.

The first case is true of Pakistan and to some extent of India where emphasis is mainly on "practical necessity" rather than on "political philosophy" in respect to the whole public enterprise sector in general and public corporations in particular. India believes in socialism as the political goal but actually "is living in an economic framework which is essentially capitalistic."[25] Pakistan, on the other hand, is more definite about the absence of any political philosophy in its adoption of the corporate form of public enterprise as the Planning Commission of Pakistan clearly pointed out:

> No doctrinaire assumptions underlie the plan and neither an exclusively capitalist nor an exclusively socialist economy is postulated, the approach throughout is pragmatic.[26]

The same absence of any political philosophy and the motive of pragmatism is notceable in the U.S. where most of the public corporations were set up to deal with the emergency situations arising out of the two World Wars.

England is, however, the exception from this single criterion of expediency. Here nationalization of existing industries rather than creation of new public corporations has been the trend. Nationalization in England has always

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[25] Om Prakash, The Theory and Working of State Corporations (London: George Allen & Unwin Ltd., 1962), p. 36.

[26] Government of Pakistan, National Planning Commission, The Second Five Year Plan 1960-65 (Karachi: Manager of Publications, 1960), p. xiii.

been implemented under the Labour Governments. The Labour Party's nationalization policy has both the elements of political belief and necessity. As Robson says, this policy

> sprang from a deep-seated conviction that socialism requires the public ownership and operation, in the interest of the whole community, of the basic industries concerned with fuel and power, transport, and the essential raw materials on which the whole economy depends. It was further held that a policy of full employment demands effective control of currency and credit through national ownership of the central bank . . . Finally, there was the conviction that control over these basic industries is essential to effective economic planning.[27]

Here political conviction has been the dominant motive and the consideration of necessity has been put in the background but not completely forgotten.

Problems of Public Corporations

The advantages of corporate form of public enterprise are overwhelming but it is not an unmixed blessing. While this form of public enterprise solves many problems, it seems to give rise to a host of others.

The major problems arising from the public status of public corporations will be surveyed below while the managerial problems that arise from the corporate aspect of public corporations will be discussed in chapter IV. A detailed examination of the problems will be made in later chapters.

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[27] Robson, Problems of Nationalized Industry (London: George Allen & Unwin Ltd., 1952), p. 285.

The former type of problems arise because of two special situations that the managers of public corporations have to face. On the one hand, public corporations are expected to serve the public interest in all respects, that is, satisfactory profit-making is not the only responsibility of public corporation managers. They must, at the same time provide products and services even if they are not always profitable. On the other hand, the managers are responsible to a minister or some such authority of government instead of the usual shareholders in private corporations.

One of the basic problems arises because of the fact that a public corporation is supposed to be both 'public' and 'corporation' at the same time. It is supposed to be a tool of government administration and at the same time keep the benefits of private business corporations. Therefore, the administrative goal of social justice, optimal investment of funds, increased employment and the like are mixed with the purely business goal of profitability and efficiency. In short, "there is a contradiction between managerial flexibility and public accountability."[28] The problem must be solved by the managers, ministers and legislators or the best possible compromise found.

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[28]Hanson, Managerial Problems in Public Enterprise, p. 2.

Another problem is that of the legal status of the public corporations. At present they do not present a homogeneous legal form. Public corporations have been conceived differently in different countries. In some, such as Britain, they have been used as instruments for nationalization; in others, such as the United States, they have been used for resource development and emergency purposes. Pakistan and India have used them for both nationalization and development but emphasizing the latter to a large extent.

Personnel is another problem area in public corporations. First, there is a controversy as to whether civil servants or private businessmen should run the corporations. The argument is that civil servants would make the operations of the public corporations bog down under red-tapism and other bureaucratic formalities and that they are not mentally oriented as entrepreneurs. On the other hand, the businessmen may not be good for the achievement of public purposes. Second, to attract competent people into the public corporations the salary paid must be at least at the same level as in the private industries but here government pay-scale rules give rise to difficulties.

The question of public control and accountability poses another important problem. Here two types of control are involved - the administrative control and financial control. When the public corporations are under the control of a Minister the policies of the Minister and the corporation may not be compatible. The Minister being a politician will naturally be concerned about short-run benefits while the really important concern of the corporation are the long-run benefits.

On the financial side, as government annual budget appropriations for public corporations usually fluctuate, the long range planning of activities become very difficult. On the audit side of the problem it has been experienced in many countries including the U.S. that government auditors do not confine themselves to verifying but extend their jurisdiction of activity to approving or disapproving accounts of the public corporations.[29]

The governments of most countries, including the three under study, became aware of these and other problems and sought to remedy them in various ways which will be discussed in the following chapters. In the U.S., for example,

> the enthusiastic and indiscriminate use of the corporate device in the depression and recovery period to secure for government enterprises the flexibility and freedom of operation of private business undertakings began by

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[29]Albert S. Abel, "The Public Corporation in the United States," ed. W. Friedmann, The Public Corporation (Toronto: The Carswell Co. Ltd., 1954), p. 355.

> 1936 to cause some concern . . . culminating in the Government Corporation Control Act of 1945.[30]

Measures along the same line were also taken in the U.K. and India. The provision of septennial or decennial reviews of public corporations in the U.K. has had favourable reactions.

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[30]Herbert Emmerich, Essays on Federal Reorganization (Alabama: University of Alabama Press, 1956), pp. 9-11.

CHAPTER II

ORGANIZATION OF PUBLIC CORPORATIONS

Formation and Legal Status

Public corporations are separate legal entities like joint-stock companies. But the most important factor that distinguishes a public corporation from other business organizations is that it is created by an Act of Legislature or by an Executive Ordinance whereas other companies are created under the general Company Law of the country. The specific mode of creation of public corporations in the countries under study will be dealt with in a later section. Here a few problems that arise from the special mode of creation of public corporations will be noted.

In England the nationalization Acts specify, explicitly or implicitly, that a public corporation "is politically responsible to the minister and through him to Parliament. But legally, it is in no sense an agent or servant of the minister or the Crown."[1] In Law

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[1]W. Friedmann, "The Legal Status and Organization of the Public Corporation," Law and Contemporary Problems, XVI, No.4 (Autumn 1951), p. 587.

a public corporation is its own master and is answerable as fully as any other person or corporation.

Several questions arise out of the legal provisions which are set forth in the Acts or Ordinances creating the public corporations. One such problem is the relation between the responsible minister and the corporation. The problem is that "the corporation - minister - parliament relationship . . . is not susceptible to precise legal definition and many difficulties have arisen in its interpretation."[2]

Another problem arises from the statutory requirement that the corporation shall pay its way. The corporation, however, is influenced, directly or indirectly, by the responsible minister. This makes the corporation responsible for decisions and actions which it is not free to decide for itself.

Then there is the problem of getting sufficient information by the members of Parliament, from the minister or the corporation, for them to exercise their supervisory powers.

These are some of the important problems of control arising out of the legal status of public corporations. They will be discussed fully in Chapter V on accountability and control.

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[2]A.H. Hanson (ed.), Nationalization: A Book of Readings (London: George Allen & Unwin Ltd., 1963), p.14.

Forms of Public Corporations

Public corporations are one form of public enterprise. These public corporations again can be divided into different forms according to various criteria, of which, functional, organizational and monopoly power are the most important.

(1) Functional classification.-- This classification serves two purposes - it indicates the nature of economic functions into which the public sector has penetrated; and it indicates if there is any consistent relationship between the function and form of a public corporation.

The following categories of economic functions may be distinguished: (1) manufacturing, (2) trade, (3) finance, (4) insurance, (5) transport, (6) electricity and multi-purpose projects, (7) construction, (8) mining, (9) promotion and development, (10) national policy, and (11) services and miscellaneous.[3]

Manufacturing and construction as such are not usually undertaken in the form of public corporations but rather as limited companies. A modern example of a manufacturing public corporation is the British Steel Corporation set up at the latter part of 1966[4]. All the rest are more usual functions of public corporations.

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[3] V.V. Ramanadham, The Structure of Public Enterprise in India (London: Asia Publishing House, 1961), p. 30.

[4] The Financial Times (London), August 2, 1967.

State Trading Corporations are becoming more popular than before. In India they have been existing for a number of years while in Pakistan they have been established at the end of last year. These corporations can perform a large number of functions including barter deals with foreign countries, securing better prices and other terms from foreign importers and exporters, better adjustment of development planning, better promotion of standardization and quality control, control of income tax, sales tax and other tax evasions, and export promotion in general.

Most progress in India and Pakistan has been made in the field of finance. In Pakistan, for example, there are seven finance corporations at present and if investment and insurance are included the number totals nine.[5] This emphasis resulted because of the acute shortage of financial resources at the time of Independence in both India and Pakistan.

Transport is another function in which public corporations have become important. The Railway Boards in India, Pakistan and England are all very important in each of these countries. Besides, there are also Road Transport Corporations in these countries such as the East Pakistan Road Transport Corporation (EPRTC). Shipping Corporations also exist in both India and Pakistan for

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[5]Government of Pakistan, Ministry of Finance, <u>Government Sponsored Corporations</u> (Rawalpindi: 1967), p. iii.

service within and outside the respective countries. However, the most conspicuous and successful transport corporations in both Pakistan and India are the Pakistan International Airlines and the Air India International.

Public utility is another field where public corporations have become quite important. Many of the electric and gas supply firms in England and Pakistan are in the form of public corporations such as the National Electricity Board in England and the Water and Power Development Authorities in Pakistan. There are also multi-purpose public corporations such as the Damodar Valley Corporation (DVC) in India and Tennessee Valley Authority (TVA) in the U.S. which were set up for a large number of functions including flood control, irrigation, electrification and industrialization.

Mining is a very important function for British public corporations where the National Coal Board and the newly created British Steel Corporation represent a very substantial investment. In Pakistan the Oil and Gas Development Corporation, set up in 1961, represents the whole public corporation activity in mining.

Promotion and development have become probably the most important functions of public corporations in both India and Pakistan. In countries like these, where there is phenomenal dearth of capital, technical know-how and entrepreneurial ability, development corporations are expected to fill a big gap. In this respect the most notable institution has been the Pakistan Industrial Development Corporation.[6] This corporation was started with the objective of following the Japanese pattern of economic development where the industries are first established by the public corporation and later transferred to the private sector. Other functions include better coordination of planned development, securing foreign assistance in the form of loans, technicians and experts, sponsoring training programs and promoting cottage and small-scale industries.

The development corporations also perform the function of implementing government policies. The state trading corporations may also be included in this category.

The functions of public corporations in the field of services include transport, postal and communication services of various kinds. The most outstanding example is the British Broadcasting Corporation which has been imitated in India and Pakistan as the All-India Radio and Radio Pakistan respectively. However, the Indian and Pakistani broadcasting organizations are not public corporations but departmental organizations with considerable autonomy.

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[6]Om Prakash, "Industrial Development Corporations in India and Pakistan," The Economic Journal (March 1957), pp.

(2) Organizational classification.-- This is not a classification in the real sense but only some discrepencies in the organization of public corporations which seem to be present in most countries. The most striking of these is the organization of the same functional public enterprise as departments, corporations and companies all existing side by side. For example, in India "road transport is organized both as department and corporations, air transport as corporations and shipping as companies."[7] Likewise, the organization of the Damodar Valley Authority is in the corporate form while all other river projects in India are organized as boards. In Pakistan, this kind of discrepency is less marked.

(3) Classification by monopoly power.-- Public enterprises in general tend to be monopolistic. The departments have a relatively high degree of monopoly. Most of the corporations are also in the nature of monopolies. It is, of course, possible for some private enterprises to present them with considerable competition. For instance, in the field of air transport foreign airlines can and do compete with PIA, Air India, BOAC or BEA. Private financial institutions may also compete with government sponsored banks and insurance corporations.[8]

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[7]Ramanadham, The Structure of Public Enterprise in India, p. 32.

[8]Ramanadham, ibid., pp.36-41, gives an interesting classification of Indian public enterprises by monopoly power.

The company form of public enterprise probably faces most severe competition from private enterprises.

It is evident that the really significant classification is the first one - the functional classification. The other two are of some interest but they are not really very helpful in understanding the nature of public corporations.

Characteristics of Public Corporations

When there is no precise definition of a concept such as that of a public corporation it is perhaps best to look at its characteristics to understand the true nature of the organization. Inspite of large diversity in development, organization and operations of public corporations in various countries there have developed a number of characteristic features which are more or less common to all the public corporations. The number of characteristics vary with different writers but they agree on the most important points. Some of them, such as Prof. W. Friedmann,[9] have looked at the characteristics from a particular country's point of view, while others such as Prof. Om Prakash[10] and Marshall E. Dimock[11] have tried

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[9]W. Friedmann (ed.), The Public Corporation (Toronto: The Carswell Co. Ltd., 1954), p. 556.

[10]Om Prakash, The Theory and Working of State Corporations (London: George Allen & Unwin Ltd., 1962), pp. 15-34.

[11]Marshall E. Dimock, Business and Governement (New York: Henry Holt and Co., Inc., 1949), pp. 679-80.

to find them from an universal point of view. In the following discussion the latter approach is followed.

(1) Statutory body.-- As already pointed out in a previous section, a public corporation is a statutory body created by an Act of Parliament, a Royal Charter or an Ordinance of the Chief Executive of a country. They have been used by most countries but there is a preference for the legislative creation of public corporations. For instance, the BBC is the only important public corporation in England to be created by a Royal Charter while most of the others have been created by Acts of Parliament.

In Pakistan most of the public corporations have been created by the Legislature but between 1958 and 1962, when there was no Legislature, they have been created by Presidential Ordinances such as the Agricultural Development Corporation of 1961.

In India, however, there has been a tendency to authorize the Government through an Act of Parliament to create more than one or even as many public corporations as the Government desires. Thus, under the Road Transport Corporations Act of 1950 all the States are free to establish Road Transport Corporations at the State levels.

In the United States only an Act of Legislature can create a public corporation according to the Government Corporations Control Act of 1945.[12]

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[12]Dimock, op.cit., p. 418.

(2) Separate legal personality.-- Like private corporations, a public corporation is also a separate legal personality, that is, it is a juristic person. "It is a child of the state which grows into maturity as soon as it is born."[13] Prof. Friedmann has pointed out some public corporations which are not 'juristic persons' such as the South Australian Dried Fruit Board.[14] But this is the rare exception rather than usual cases.

To have the legal personality a public corporation must be

> capable of suing and being sued, of concluding contracts; it must be liable in torts, hold and dispose of property; it must have a separate name and a separate administration; its assets and liabilities must be kept distinct from those of the government in general, whether or not legally forms part of it.[15]

(3) Autonomous working.-- Public corporations require a large extent of autonomy in their operations if they are to be effective. More specifically, autonomy is required for (a) avoiding red-tapism, for, a business needs quick decisions; (b) some degree of freedom from Treasury control such as reasonable opportunities for incurring capital expenditure and for financing expansion of business; (c) avoiding political dictation, because

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[13]Om Prakash, The Theory and Working of State Corporations, p. 15.

[14]Friedmann, The Public Corporation, p. 558.

[15]Ibid., pp. 559-560.

"the intrusion of politics and patronage into the public corporation is deeply subversive of the subtle relationship on which an effective development of this synthetic personality depends."[16] Prof. Galbraith says,

> autonomy must include, subject only to the rules which define abuse, the hiring and firing of personnel. . . . Autonomy in procurement, production, engineering, and all other decisions incident to operations.[17]

The experience in Britain has been generally a large measure of autonomy for the public corporations and this has been usually followed in both India and Pakistan where the public corporations can, for example, hire and fire most of their employees as they see fit and can pay them a higher salary than is usual in private business. However, they still have a large number of civil servants in the top positions over whom they have very little authority. In the U.S., on the other hand, except for the TVA, "the record has been far from good due to restrictions imposed by the requirements of civil service."[18]

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[16] John K. Galbraith, <u>Economic Development</u> (Cambridge: Massachusetts: Harvard University Press, 1964), p. 97.

[17] <u>Ibid.</u>, p. 97.

[18] Marshall E. Dimock, <u>Business and Government</u> (3rd ed.rev.; New York: Henry Holt & Co., 1957), p. 416.

(4) No shares and shareholders.-- The public corporation has no shares and no shareholders, either private or public. "It is wholly owned by the State."[19] The Government is the entrepreneur, in the ultimate analysis, because it gains or loses from the operations of public enterprises. This is the ideal type of which the British public corporations are examples. In India and Pakistan, however, some of the public corporations have shares and shareholders of which the Government owns the majority. These shares do not give ownership rights to the shareholders and are not traded in the stock exchanges. Most of the financial corporations such as the Industrial Finance Corporation of India and the Industrial Development Bank of Pakistan fall in this category. These are usually called 'mixed corporations', but the Governments of India and Pakistan include them under the category of public corporations. Many of the other public corporations in these two countries are, however, wholly Government-owned.

(5) Independent administration.-- The public corporations are administered by independent Governing Boards in all countries whatever their specific name may be. In India, Pakistan and Britain this Governing Board

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[19] A.H. Hanson, Managerial Problems in Public Enterprise (Bombay: Asia Publishing House, 1962), p. 21.

"is appointed by the competent Minister."[20] At first, the members were appointed without regard to any class or group interests. Later the idea of group interest representation became more generally acceptable in Britain. For example, the Port of London Authority had a Board consisting of "representatives of the directly interested industries."[21] This system was, however, abandoned in later years.

At present the most prevalent system of choosing a Board member is his knowledge and skill in the affairs of a certain corporation. In England, Ministers are not members of the Boards but in India they are found, in some cases, to head the Governing Boards such as the Employees' State Insurance Corporation. In Pakistan No Minister is included in the Board of a public corporation. Most of them are headed by senior members of the Civil Service of Pakistan or other Superior Services of Pakistan.

(6) Self-contained finance.-- One important feature of 'corporation' type public enterprise is that it should be able to finance its operations and expansions from its own resources after the initial investment has been made by the Government. It must be able to spend large sums

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[20]Friedmann, The Public Corporation, p. 164.

[21]Ibid., p. 164 footnote.

of money on capital expenditure and take losses once in a while without running to the Government for help. This is why the Government of Pakistan, for example, provides for 'paid-up capital', 'revolving fund' and 'guarantees'. Subsidization may sometimes be necessary, as in the cases of Pakistan International Airlines and the British Overseas Airways Corporation, for efficient operation, but this is not envisaged as a permanent arrangement.

Freedom from Treasury control is another aspect of self-contained finance. A public corporation in Pakistan is empowered to have commercial accountancy and audit. This is in contrast to the case in the U.S. where Government audit has caused difficulties in the financial autonomy of the public corporations.

(7) <u>Judicial control</u>.-- Judicial control has been necessitated by the monopolistic nature of many public corporations. As legal persons, public corporations are subject to all legal controls like other business firms. A court can rule against discrimination by a public corporation against any individual or company and can enforce general compensation plans of the government on public corporations. The Damodar Valley Corporation Act of 1948 provides that

> any dispute between the Corporation and any participating Government regarding any matter covered by this Act or touching or arising out of it shall be referred to an arbitrator who shall be appointed by

> the Chief Justice of India. The decision of the arbitrator shall be final and binding on the parties.[22]

Another form of judicial control is by the various councils created by the Government for the purpose. For example, the Air Transport Advisory Council in England has "to consider any representation from any person with respect to the adequacy of the facilities provided by any of the three corporations (now only two) or with respect to the charges for any such facilities."[23]

Another, more critical, review is done by the Parliamentary Committees such as the Public Accounts Committees in the U.K. and India. Tribunals with judicial authority are also used for the same purpose.

(8) Commercial audit.-- The public corporation has been conceived as a commercial or industrial concern free from the cumbersome and tortuitous procedures of Government departments. Therefore, it is a necessary corollary that they should have commercial audit and accounting. However, practice differs in various countries. In the U.S., for example, "the New York Port Authority's books are subject to examination by the Comptroller of the State of New York and the Director of the Division of Budgets and Accounts of the State of New Jersey."[24]

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[22] Government of India, The Damodar Valley Corporation Act 1948, March 27, 1948.

[23] D.N. Chester, The Nationalised Industries (London: Allen & Unwin, Ltd., 1951), p. 36.

[24] Hanson, Public Enterprise, p. 53.

In India, still a large number of public corporations are audited by the Auditor and Comptroller General of India or by auditors nominated by him. The basic shortcoming of the use of Government auditors is that "they so much engross themselves with petty technical details that they hardly have time (and temperament) to be able to pay attention to broader questions of business efficiency and prudent management."[25] Hence the preference for commercial auditors who pay more attention to commercial principles. In Pakistan, both Government and commercial auditors are used but mostly commercial auditors prepare the reports.

(9) Freedom from civil service regulations.-- The autonomous status and commercial principles of operation of a public corporation make it essential that it should be free from the rigidity of civil service rules. In the whole range of personnel administration public corporation must be allowed to have its own regulations. In the U.S., however, the Ramspeck Act of 1940 gave such freedom only to the TVA.[26] In India and Pakistan a middle course seems to be followed. Most of the top people in the public corporations are 'deputed' civil servants whose salary, leave, et cetera are governed by civil

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[25] Prakash, op.cit., p. 26.

[26] Hanson, Public Enterprise, p. 32.

service regulations while the lower level jobs are regulated by the public corporations' own rules. Some notable exceptions are the State Bank of Pakistan and the State Bank of India which are completely free to have their own regulations regarding their personnel.

(10) Socialization.-- It is probably the highest ideal of a public corporation. A public corporation cannot merely have commercial goals, it must also have social goals. A socialized industry has been defined "as one which is responsive to the needs and interests of the society."[27] It is assumed that with a new consciousness on the part of management, technicians and labor a social change will be effected. But this will need good communication channels within and without the organization - both of which are difficult to achieve. Therefore, while it is not possible to be too enthusiastic about socialization, one must still be consciously trying to achieve it.

Administrative Structure

Structures of organizations "are a little like architecture."[28] To some extent one may choose one

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[27]Prakash, op.cit., p.33.

[28]Franklin G. Moore, Management: Organization and Practice (Tokyo: Harper & Row and John Weatherhill, Inc., 1964), p. 507.

structure or the other without any appreciable difference. But in many cases they do make a lot of difference, especially depending on the size of the organization.

Public enterprises differ in their organizational structure like other organizations. The first organization structures that are possible are the departmental, corporate and company forms which have been dealt with in Chapter I. Next, the organizational structures of the corporate form of public enterprise as they exist in the three countries under study must be examined.

The statutory structure provided for a public corporation is significant in three ways:[29]

a) The statute basically lays down the scope and limits of corporation activity.
b) The statute denotes the degree of flexibility in the decision and action processes at different levels of management. Some Acts may contain provisions that specify almost the entire decisional hierarchy and the structure of managerial tiers from the top board downwards, while others, such as the National Coal Board in Britain, the Acts may leave all decisional and organization structure to be worked out by the Board.
c) The Act may indicate or specify the relationship among the parties within the industry - management and workers, corporation and Parliament, corporation and consumers.

There is usually not much difference between the organization of a public corporation and a private corporation. However, in countries like India and Pakistan, public corporations have an added "responsibility

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[29]Ramanadham, The Structure of Public Enterprise in India, p. 119.

for setting an example of good managerial organisation."[30]

The statutory provisions relating to the organization of the public corporations may be studied under three headings: (1) overall structure, (2) internal structure, and (3) inter-corporation relations.

Overall structure.-- From the point of view of overall structure a public corporation may be (a) unitary or centralized, or (b) decentralized. The choice between these two depends on the conditions of production and sale, on the extent of the area served, on the proportion of the activities brought into the public sector, and on the degree of competition to be maintained. Most public corporations in India and Pakistan are centralized.

There has been a controversy as to whether public corporations should be centralized or decentralized. The final answer probably depends on the particular case in hand. The Gas Industry in Britain has a decentralized structure. It is

> divided by statute into 12 Areas, each administered by a Gas Board. Each Gas Board is a separate public corporation, whose members are appointed by, and are responsible to the Minister of Power. . . . There is, however, a central body known as the Gas Council, which is federal in composition, consisting of the chairman of the twelve Boards, together with a Chairman and Vice-Chairman of its own. Its main job is coordination of policy. It gives advice both to the Area Boards and to the Minister. . . . Thus the British Gas Industry has a federal or decentralized structure.[31]

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[30] Hanson, Managerial Problems in Public Enterprise, p. 61.

[31] Ibid., p. 67.

This kind of decentralization is absent in both India and Pakistan as their public corporations are self-sufficient and not coordinated by any organization like the Gas Council of Britain.

It seems that centralized corporations are more acceptable to the thinking of the general public. As Arthur Palmer says "in the eyes of most people nationalization classically means centralization. It is public ownership under state direction."[32] Decentralization is probably not compatible with public ownership because it not only gives rise to an intermediary and superior authority to the public corporation (according to Hansonian concept of decentralization) but also complicates relations among the corporation, intermediary body, the Minister and Parliament considerably.

According to the Fleck Committee, however, "decentralization means that each level of management specifies clearly the powers which may be exercised by the level below it. Having done so, it leaves the lower formations free to exercise those powers."[33] But even in this sense a public corporation may not be decentralized but it "may be over-centralized or under-centralized at a particular

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[32]Arthur Palmer, "The Background to Organization," ed. Michael Shanks, The Lessons of Public Enterprise (London: Jonathan Cape, 1963), p. 186.

[33]Quoted in Hanson, Managerial Problems in Public Enterprise, pp. 64-65.

time . . . but centralized it must be."[34]

Two situations may be thought of where a centralized organization is desirable. First, where the public corporation competes with other public or private enterprises. As examples, one may recall the cases of financial corporations in both India and Pakistan. Second, where the nature of the enterprise makes a centralized structure more efficient. Air Corporations are examples of this type.

Centralized organization does not, of course, mean that there is no delegation of responsibility and authority at all. In certain situations such as in Pakistan where the country is divided by more than one thousand miles of foreign territory a high degree of autonomy must be given to the regional offices. The Agricultural Development Bank of Pakistan (ADBP), for example, has three regional offices in each province and the Regional Managers are given wide powers in the granting of loans and other activities in their regions.

Internal structure.-- It has been already pointed out that Acts vary in their direction as to the internal structure of public corporations. There is the dilemma that the Act should specify managerial sub-division to ensure the achievement of its objectives while it should not "go so far as to inhibit the flexibility of managerial

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[34]Palmer, op.cit., 187.

behaviour on the part of the corporation itself. Moreover, the act must not cause the setting up of bodies whose working may conflict with the functioning of the corporation itself."[35]

The balancing of these two requirements has not been done very satisfactorily in India, Pakistan or even in the U.K. In this connection one major aspect - the appointment of the chief executive officers - may be examined.

Three ways have been used for the appointment of the Chief Executive of public corporations and examples of all three are found in India and Pakistan. The three ways are the following:

a) The Chief Executive is appointed by the government. This is the case of the Damodar Valley Corporation and the Road Transport Corporations in India. In Pakistan, the Agricultural Development Bank of Pakistan and the Investment Corporation of Pakistan are two examples.

b) The Chief Executive is appointed by the Board of the corporation with the concurrence of the Government. Pakistan Industrial Credit and Investment Corporation and the Air Corporations in India are examples.

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[35]Ramanadham, The Structure of Public Enterprise in India, p. 141.

c) The appointment is made by the Board of the Corporation. Life Insurance Corporation of India Pakistan Security Printing Corporation are examples of this method.

The most important method is, however, the first one although all of them have been practiced at random without any apparent compelling reason.

The use of the method of government appointment of the Chief Executive is perhaps due to the government's desire to maintain effective control over the corporation. It, however, gives rise to the apparent problem of divided loyalty and at times the Chief Executive must show allegience to the appointing authority against the corporation to keep his job. This is probably why most of the Chief Executives of public corporations in Pakistan are civil servants. But even some of these civil servants sometimes try to be more concerned with the well-being of their corporations rather than to please the minister with the inevitable result of their transfer to some other post. The British practice in this respect has been more proper in that the Acts "do not empower the government to appoint the chief of the corporation."[36]

Inter-corporation relations.-- This aspect of public corporation organizational structure becomes

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[36] Ibid., p. 142.

relevant when there are more than one public corporation within the same industry such as the Area Gas and Electricity Boards in England.

The public corporations in India and Pakistan are monolithic or unitary structures and therefore the need for inter-corporate relation is of nominal importance. However, in India the governing boards of the Warehousing Corporations are inter-linked and the board members of the two Air Corporations are commonly appointed. There is no such provision in case of public corporations in Pakistan. An interesting case of inter-corporate collaboration has been mentioned in Pakistan. It is between the Industrial Development Bank of Pakistan and the East Pakistan Small Industries Corporation and the West Pakistan Small Industries Corporation which has shown encouraging results in developing small industries in the country.[37]

Autonomous Status

Public corporations are by law autonomous organizations i.e. except for proper control by the Minister and Parliament they are given complete freedom in the normal day-to-day running of business and other activities. However, the practice has been different from the legal

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[37] Z. Huq, "IDBP - How It Finances Medium-Sized Industry," Dawn (Karachi), August 14, 1967.

provisions in both India and Pakistan. The most conspicuous case is that of the Damodar Valley Corporation (DVC) of India.

The DVC, although modeled after the TVA of the U.S., does not have as much autonomy as the TVA. It depends on finances voted annually by Parliament and is therefore under very close supervision of the Ministry of Finance. It has to

> obtain government approval for many of its contracts and financial agreements, and to work together with the government financial adviser, who can refer decisions of which he disapproves to the political authorities for confirmation or rejection.[38]

The business of the corporation is often very slow due to the fact that the projects prepared by its highly-qualified engineers are scrutinized by the engineering departments of three participating governments (central, States of Bihar and West Bengal).[39] As a result, the history of the Corporation became "a series of unedifying episodes in which it had to use a great deal of its energies in attempting to maintain its autonomy with scant success."[40]

The DVC, however, is not unique in this respect.

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[38] Hanson, Public Enterprise, p. 413.

[39] Nabagopal Das, The Public Sector in India (2nd ed.; London: Asia Publishing House, 1961), p. 75.

[40] A.D. Gorwala, Report on the Efficient Conduct of State Enterprises (New Delhi: Govt. of India, 1954), p. 20.

The principle of autonomy is an exceedingly difficult one to work and maintain even in developed countries with many years of experience in public enterprise and adequate supplies of organizational and technical talent.

It has been argued that to work efficiently, public corporations must be kept "out of politics" and this, according to Hanson, can be best ensured by giving the Minister enough powers to override the Board.[41] This, however, goes too far to the other side of autonomy and completely ignores the fact that ministerial interference can become equally 'political' and undesirable. In fact, the Chagla Commission and the Vivian Bose Enquiry Tribunal investigations in India "showed that encroachment over the autonomy of these corporations by the Minister or his Secretary need not always be in the public interest."[42]

In Pakistan, there is probably less ministerial interference in the affairs of public corporations than in India but still it is enough to cause dissatisfaction among the top executives and in many cases hinder the efficient working of the corporations.

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[41]Das, op.cit., p. 75, quoting Hanson, Public Enterprise and Economic Development (London: 1959).

[42]Ibid., p. 75.

Financial Structure

Good financial structure is essential for the success of any business organization including the public corporations. However, as government corporations they cannot raise all of their capital requirements directly from the open market. There are mainly three methods of financing public corporations: (a) periodical appropriation from the government; (b) self-financing; and (c) market operations.

The first method may take various forms such as grants, loans or subsidies. As government organizations public corporations derive the major part of their capital from the government. However, while the social service corporations are normally financed through government appropriations the commercial and industrial corporations usually own revenue producing assets on which they can borrow from the government or the public. It is only in some special circumstances that grants and subsidies are allowed. The method of financing a public corporation through annaul "appropriations by the legislature from the revenues of the state is regarded as unsuitable by all students of public corporations. So is private shareholding in the form of ordinary shares."[43]

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[43]Amba Prasad, "The Theory and Practice of the Public Corporation in a Democracy," The Indian Journal of Public Administration, VI, No.1 (Jan.-March,1960),p.51.

Annual appropriation is obviously not conducive to good business practice and should not be given except at the beginning and later under special circumstances of loss or other bad financial conditions. This also has the possibility of too much government interference in the financial affairs of the corporations. Share capital is obviously against the principle of public corporation. Prof. Hanson points out that

> if the enterprise issued to the public shares on which the interest varied according to its profitability two consequences would follow. First, the corporation or the enterprise would have to aim at making the maximum profit; secondly, it would have to give the holders of stock representation on the Board. But profitability . . . is not necessarily the main purpose of public enterprise . . . ; and if representatives of private shareholders were made members of the Board, then the enterprise would automatically cease to be fully public.[44]

However, the word 'fully' in the above statement should be marked because the public corporations in India and Pakistan are not 'fully public'; most of them are 'mixed public corporations'. This is not the case in Britain where the public corporations are 'fully public' and therefore can raise capital from outside only through loans.

"The provision of a composite capital structure, containing equity elements - i.e. governmentally supplied capital, together with subscriptions from other sources

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[44]Hanson, _Managerial Problems of Public Enterprise_, p. 130.

emerges as a distinctive feature of the Indian Corporations".[45] This comment of Prof. Ramanadham applies equally well to the Pakistani public coporations. There are two reasons behind this. First, public corporations will be able to reach more capital than what they can expect from the government, while the government on its part can spread its investments to wider areas, if a part of the financial burden of the public coporations is taken up by outside sources. Second, it is a means of injecting the initiative of private enterprise into the public corporations.

This practice of having mixed capital structure seems to be on the increase. In the U.K. the Electricity Act entitled the Electricity Boards to issue stocks. This has also been done by the Gas Council, the Transport Commission and others.[46] Others including the National Coal Board raised their capital through government loans and grants.

In India, the Damodar Valley Corporation, the Air Corporations, the Road Transport Corporations and the Industrial Finance Corporation, among others, are allowed to raise capital by issuing bonds and debentures in the market.[47]

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[45] Ramanadham, The Structure of Public Enterprises in India, p. 152.

[46] These stocks, however, do not give any ownership rights to the 'stock'-holders. These are in the nature of loans and the corporations remain fully public. For details see R. Kelf-Cohen, Nationalisation in Britain (London: Macmillan & Co., Ltd., 1958), pp. 178-180.

[47] Ramanadham, op.cit., pp. 146-151.

In Pakistan, most of the public corporations are allowed to sell shares to the general public or other private institutions. In most cases, however, the government maintains at least 51 per cent share of the stocks. For example, the State Bank of Pakistan has 300,000 shares of Rs. 100 each, of which 51 per cent is subscribed by the government and the remaining 49 per cent by the private financial institutions. But the government has provided a reserve fund of Rs. 30 million to the Bank.[48] The Pakistan Industrial Credit and Investment Corporation is a special case deserving special mention. This is considered to be a public corporation in official publications but 60 per cent of its capital is subscribed by Pakistani citizens and 40 per cent by foreign investors in the proportion shown below.

TABLE I

COMPOSITION OF SHAREHOLDERS OF PICIC
AS ON MARCH 31,1967

	Number of shareholders	Rupees in Million	Per cent share
Pakistani shareholders	701	2.40	60.0
U.K. & Canadian shareholders	31	0.43	10.7
U.S. shareholders	6	0.44	11.0
Japanese shareholders	12	0.29	7.3
German shareholders	3	0.24	6.0
International Finance Corp.	1	0.20	5.0
	754	4.00	100.0

Source: Govt. of Pakistan, Government Sponsored Corporations (Rawalpindi: 1967), p. 33.

[48] S.M. Akhtar, Economics of Pakistan, II (7th rev.ed.; Lahore: Publishers United Ltd., 1963), p. 263.

The government has, however, advanced three long-term loans to PICIC - the first one made available in 1957 is interest-free, the second, sanctioned in 1961, at an interest of 4 per cent per annum and the third, sanctioned in 1965, carries an interest rate of 5½ per cent. A special feature of these loans is that they "are subordinated to all its liabilities, and to the share capital, and hence counts as equity for all purposes."[49]

Another interesting case is the East Pakistan Industrial Development Corporation (EPIDC). The Corporation has 100 shares of Rs. 100,000 each. It gets annual budgetary appropriation of the Provincial Government which in 1964-65 was Rs. 238.8 million. It is also allowed to supplement its capital from private sources, foreign aid and loans and working capital obtained from Pakistani commercial banks on normal commercial terms. A substantial part of the government grant is in the form of foreign exchange.[50]

There is a big controversy on the last important source of finance for public corporations, namely self-financing. It means making a profit and then ploughing it back into the finances of the corporation. The big question, however, is: are the public corporations allowed

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[49] Govt. of Pakistan, Ministry of Finance, Pakistan: Economic Survey 1965-66)Karachi: 1966), p. 138.

[50] Govt. of Pakistan, Ministry of Finance, Financial Institutions: National and International (Rawalpindi: 1964), p. 74.

to make profits and if so under what circumstances?

The main argument against profit-making is that a public corporation should aim at service and not profit. On the other hand, there are good reasons why it should make profits. According to Hanson,

> if a public enterprise does not make a profit when it is in a position to do so then, of course, its further capital requirements have to be obtained either by new loans or by new grants. This means either the citizen becomes subject to higher taxation or that the public enterprise itself is burdened with an increasing weight of interest payments and capital repayments.[51]

This applies more to the Indian and Pakistani 'mixed corporations' which must pay some dividends to the private shareholders.

In the U.K. the Nationalization Acts do not have any "prohibition of a surplus nor any limit to its amount."[52] The same is true of public corporations in India and Pakistan but while the surpluses of Indian and Pakistani public corporations are transferred to the government in most cases, in Britain they "are not surrendered to the Government but remain with the industries concerned."[53]

It is evident that the method of financing of public corporations has changed from that of complete government

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[51]Hanson, Managerial Problems of Public Enterprises, p. 133.

[52]Robson, Nationalized Industry and Public Ownership, p. 282.

[53]Ramanadham, Problems of Public Enterprise (Chicago: Quadrangle Books, 1959), 167.

appropriations to a mixed system with government capital and private capital of various kinds. As the public corporations in countries like India and Pakistan are really 'mixed corporations' this method of financing seems to be the most logical. There cannot be any dogmatic approach to financing of public corporations but only the particular circumstances should govern the choice of financing methods and structure.

Board of Directors

The board of directors or the governing board occupies a position of crucial importance in the direction and management of a public corporation. The success or failure of a public corporation is, indeed, dependent on the quality and composition of the Board than on any other single factor.

The importance of the governing board of a public corporation may be gauzed by the functions which a normal Board is likely to be responsible for. According to Prof. Robson, these functions include:

> the appointment of a chief executive and the principal officers; the programmes of current and future output; plans for development or reorganization; major projects for new equipment; relations with Ministers on matters of policy; the consideration of serious criticism by Parliament, consumers of the public and the action to be taken; the result of negotiations with, or demands by, trade unions on important matters; general policy concerning finance, capital expenditure, prices, surpluses and deficits; the policy of the undertaking in staff matters, including questions of wages, incentives,

> morale, and consultation with employees; the promotion of further legislation (whether private or public Bills) and the attitude to be taken towards other Bills; the methods by which the corporation is to comply with ministerial directions and the attitude of the corporation to requests or proposals by Ministers; serious conflicts of interest or policy with other public corporations or with private interests; the allocation of sums to reserve, and the management of reserve funds; the action to be taken by the corporation to reduce operating deficits; the adoption of important new inventions, processes or improvements; policy on research and development, training and education.[54]

The governing board of a public corporation has more responsibilities than that of a private corporation because the latter is responsible only to the shareholders whereas the former is "entrusted with duties to the consumers, to the employees, to the Government, to Parliament, and to the nation."[55]

However, the governing board of a public corporation is not free from criticism. Some writers have even seriously questioned the necessity of a governing board at all. Most of the criticisms have come from the United States where governing boards are not much in use in public corporations.

The first criticism is that since Boards are needed for making policy decisions which in case of public corporations are taken by the Minister and the Parliament

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[54] Robson, Nationalized Industry and Public Ownership, p. 212.

[55] Ibid., p. 213.

then the Board in such case becomes an ineffective appendage to the corporation. But these critics fail to see that "there is an important area of sub-policy and decision making mid-way between the overall action of Congress and the point where the administrator takes up. It is in this area that a representative, and resourceful Board of Directors must occupy if Government corporations are to operate with efficiency and accountability."[56]

The second criticism is that Boards lead to a "diffusion of responsibility."[57] There may be a difficulty in separating the responsibilities among the Minister, the Board and the management. There may also be delay in decision-making and avoidance of responsibilities by members by 'passing the buck' from one to another. This is why the Congress in the United States recommended the replacing of the Board of the Reconstruction Finance Corporation by a single administrator.

This criticism is the result of a lack of faith in group action. However, in the U.K. as well as in India and Pakistan, where a true collective leadership is sought, the Governing Boards will remain an essential part of the public corporations in the foreseeable future.

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[56] Marshall E. Dimock, "Government Corporations: A Focus of Policy and Administration," American Political Science Review, XLIII (October 1949), p. 916.

[57] Harold Seidman, "The Theory of the Autonomous Government Corporation : A Critical Appraisal," Public Administration Review, XII, No.2 (Spring 1952),pp.89-96.

A third important criticism is that when functional responsibilities are given to a Board, it may become too absorbed in the day-to-day administration to take an overall view of the whole corporation. In answer to this, it may be said that effective supervision by the chairman of the Board and the responsible Minister can keep the Board within its own functions.

The practice, in the U.K. and other commonwealth countries, of creating Governing Boards for public corporations indicate that the consensus is on the side of Governing Boards rather than on single administrators which is the trend in the United States only.

Structure of Board of Directors

In discussing the structure of board of directors of public corporations there are a number of important points which must be considered. These points are:

1. choice between Policy Board and Functional Boards;
2. choice between representative and appointive Boards;
3. the size of Boards;
4. qualification of members; and
5. the tenure of members.

Policy Board or Functional Board.-- According to the duties to be performed there may be policy boards or functional boards.

The Functional Board mainly consists of full-time experts in charge of particular divisions within the organization. A good example is the National Coal Board of England which has been organized as a functional board with eight full-time and four part-time members on the recommendation of the Fleck Committee. Among them the functional members cover all the main activities of the corporation.

The main arguments advanced in support of functional boards are three. First: when a member is directly responsible for a department of the corporation he is likely to show more responsibility and is likely to try his best, since he will be held accountable for the performance of the department. Another incentive of lesser importance would be to avoid embarrassment at the Board meetings. Second, it ensures better supervision and closer contact between the top management and the actual operational levels. Third, the members would be better placed to understand technical problems and to bring about technological improvements.

The Functional Board has been tried in some other countries but it seems to have no special merit for the success of a corporation.

A Policy Board consists of both full-time and part-time members and none of them is responsible for executive functions of any particular department. The supporters of this type of Board point out that functional board members are often bad administrators, interfere too much in the work of subordinates, tend to become vindictive and short-sighted. Moreover, they are likely to be at loggerheads and thus teamwork, which is essential for the success of the corporation, is often difficult. A Policy Board, on the other hand, can probably promote better worker participation and public relations. It is also probably better suited for the interpretation and execution of government policy instructions.

The criticisms of Policy Boards are that the members, not usually being experts, remain mere 'yes-men' of the Minister and being a group of widely different backgrounds may not be able to work as efficiently as the Functional Board, especially when different interest groups are represented.

The controversy still remains unsettled and the choice usually depends on the purposes and external influences. While "all or most Boards in India are predominently of the policy kind,"[58] in Pakistan there seems to be no preference for one of the two types. However, in general Policy Boards are used for financial corporations such as the State Bank, Industrial Development Bank of Pakistan while industrial and commercial corporations have Functional Boards such as the Industrial Development Corporations of East and West Pakistan and the East Pakistan Water and Power Development Authority.

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[58]Hanson, Managerial Problems in Public Enterprise, p. 45.

Representative or Appointive Boards.-- A Representative Board consists of representatives of different interest groups such as the French system under which three equal groups of representatives - the State, the consumer and the employees - compose the Board of public corporations.[59] This practice, however, has not had much success. The reasons can be both theoratical and practical. First, it is difficult to determine which interests are to be represented and how they should be chosen. Second, with different groups trying to attain their separate group goals the corporate spirit is difficult to develop. On the desirability of consumer and employee representation it can be said that they would be better represented on the advisory bodies.

The Appointive Board, where the Minister has greater latitude in picking members on the basis of qualification only, is probably better from the point of view of both ability and cooperation among members. In the United Kingdom, India and Pakistan this type is the one preferred.

Size of Boards.-- There is no hard and fast rule about the size of a Board and apparently no direct relation has been found in the size of the Board and its efficiency. One of the largest public corporations in the world - the TVA -

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[59] William A. Robson, "The Governing Board of the Public Corporations," Political Quarterly, XXI (1950), p. 138.

has a Board of only three members while the French Boards used to have 18 members which was later reduced to 12.

Two principles, however vague, have been discerned by Prof. Hanson,[60] which are important considerations in determining the size of a Board. First, the Board should not be so large and heterogeneous as to make the decision-making process slow and difficult. Second, the Board should be large enough to enable some variety of knowledge and experience to be represented on it.

These are, of course, just rough guidelines and countries differ in what they think is the proper size of a Board. One important point is whether the number of members should be fixed or flexible. While both types are found widely the flexible type is generally preferred. This is because of the convenience that the Minister can seize the opportunity thus provided to appoint a man of unusual ability at the moment when he happens to be available.

The size of the Board depends, to some extent, on the time-status of the members. Boards composed of full-time members tend to be smaller than Boards of part-time members.

In England, the best size of Board is considered to be between eight and twelve. The statute of the National Coal Board states that the Board should have between eight

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[60]Hanson, Managerial Problems in Public Enterprise, pp. 47-48.

and eleven in addition to the Chairman. In India the size varies within a wide range of 34 members for the Employees' State Insurance Corporation and three for the Damodar Valley Corporation.[61] In Pakistan, the maximum size is 16 for the Pakistan Industrial Credit and Investment Corporation (see Appendix B).

On the question of whether to have full-time or part-time members it seems that the British corporations have used both but Pakistan and India, like Japan and France, have shown preference for part-time members. The Chairman, however, work on a full-time basis. The main reason for this preference seems to be the non-availability of suitable persons to work full-time at policy level and also a great deal of money is saved by this practice.

Qualification of members.-- The Board of Directors, being the top management of public corporations, must have very able men on it for successful operations. The Board must consist not only of men who are actuated by highest of motives - that of the satisfaction of successful management - but also of those who have energy, imagination, experience and technical competence, to handle their jobs with success.

While no concrete requirement of qualifications can be made, the British statutes require that the Minister "appoint persons whom he considers to have had wide experi-

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[61] Prakash, The Theory and Working of State Corporations, p. 133.

ence and shown capacity in specified fields of activity."[62] The types of experience, of course, varies with the nature of the corporation but they almost always include industrial, commercial and financial matters, administration and organization of workers.

A study of the background of Board members in Pakistan (Appendix C) shows that upto 1964 over 48 per cent of them were government officials, of whom, over 26 per cent were non-technical active government servants, while businessmen accounted for about 31 per cent of the members.[63] A similar study in India revealed that 91 of 163 Board members were officials.[64] A recent report revealed that in East Pakistan out of a total of 100 Board members of 16 provincial public corporations 70 are regular government servants and of the Chairmen of these corporations, 12 are civil servants and the rest are also government servants.[65]

One special point of interest in case of Pakistan is that because of the long distance between the two provinces

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[62]Robson, Nationalized Industry and Public Ownership, p. 215.

[63]Ralph Braibanti, Research on the Bureaucracy of Pakistan (Durham, N.C.: Duke University Press, 1966), Table facing p. 237.

[64]Prakash, op.cit., p. 133.

[65]A.K.M. Ahsan, "Top Level Management and Personnel Problems of Public Enterprises," Seminar on Problems of Public Enterprises (Lahore: National Institute of Public Administration, 1967) (Mimeographed).

of the country provincial representation has been a requirement in the Board of some central government corporations such as the House Building Finance Corporation where the Executive Committee of the Board must have at least one Director from each province.[66]

Another point of qualification or rather disqualification is that about a Minister, Secretary, or a member of Parliament being appointed to the Board of public corporations. The inclusion of these people in the Board is criticised by a large number of authorities on the ground that the job of a member of Parliament or a Minister is to supervise and criticise the Boards, and judge their performance, but judgement and criticism are difficult when they themselves are members of the Boards.

In Britain, "members of the House of Commons are ineligible for membership of the vast majority of the boards."[67] Ministers also do not become members of the Boards. In India and Pakistan, however, while the members of Parliament are not appointed as Board members, the Ministers are members of many Boards. Hanson does not "think it is invariably wrong for a Minister to sit on

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[66]Govt. of Pakistan, Government Sponsored Corporations, p. 49.

[67]Robson, Nationalized Industry and Public Ownership, p. 245.

a Board or even to be its Chairman,"[68] when the corporation in question encompasses wide functions which are vitally important for the whole economy. But the experience of ministerial or secretarial participation has not been encouraging at all. "The Minister and Department Secretaries tend to take an air of superiority in their dealings with the Boards."[69]

There has been a widespread appointment of civil servants, both in India and Pakistan, to the top management positions of public corporations including the Boards, as has already been pointed out. But this, as has been noted by M. Ayub - himself a top ranking civil servant and a former Chairman of East Pakistan Water and Power Development Authority,

> large-scale use of civil servants in state industrial enterprises is often not a matter of choice but of necessity. Experienced industrial and business managers and accountants are simply not available.[70]

Tenure of board members.-- This is one of the most difficult aspect of the Governing Boards of a public corporation. The Boards are clearly intended to be non-political and

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[68] Hanson, Managerial Problems of Public Enterprise, p. 54.

[69] Prakash, op.cit., p. 135.

[70] M. Ayub, "Some Aspects of Management of Public Industrial Enterprises in the ECAFE Region," Paper prepared for the Seminar on Management of Public Industrial Enterprises (New Delhi: Dec. 1-11, 1959(, p. 6. quoted in Irving Swerdlow (ed.), Development Administration: Concepts and Problems (Syracuse: Syracuse University Press, 1963),p. 17.

the members do not resign with the departure of the appointing Minister. What has been said about the size of the Boards apply equally well to the tenure of the Board members - that it should not be too short or too long.

As a general rule, the members are appointed for a period which is fixed but the "tenure of individual members is often staggered in order to preserve an element of continuity."[71] The tenure usually ranges from three to nine years with a slight preference for five years as the maximum limit. In Britain most of the statutes provide that a member shall be appointed for a term "not exceeding five years as may be determined by the Minister before the appointment of such member."[72] In India and Pakistan there is a wide variation in the tenure of Board members, for example, the Chairman of the Agricultural Development of Pakistan is appointed for five years, the non-official Directors for three years while the official member's tenure depends on the government.[73] This tendency of the government to reserve the right to terminate the term of service of the official members is quite typical.

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[71] Robson, Nationalized Industry and Public Ownership, p. 233.

[72] Coal Industry Nationalization (National Coal Board) Regulations, 1946, quoted by Robson, ibid., p. 233.

[73] Govt. of Pakistan, Government Sponsored Corporations, p. 21.

This practice of different lengths of terms of office for the Chairman, Managing Director, official and non-official members give the Board a staggered system of tenure which has the disadvantage that no particular Board can be made responsible for the success or failure of the corporation after a few years have elapsed. In India a similar variation is noticed. Three to five years seem to be the most usual tenure for Board members in India. However, in practice, as in the case of Damodar Valley Corporation, "the term of . . . Chairman has varied from three months to five years."[74] The longest tenure is for the members of the Tennessee Valley Authority Board who are appointed for nine years.

The Board members of public corporations are usually allowed to resign and most of them are eligible for reappointment in most of the countries. However, there is a controversy as to whether the Minister should have the power to remove a member. The situation of official members is clear - they hold office as long as the government wants them to. This is true of all the four countries under study.

The theoratical argument on this point is very clear, that is, the appointing Minister must have the power to remove members to check the members' autocratic obstructive and irresponsible tendencies. There is a danger,

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[74]Prakash, op.cit., p. 129.

however, that the power of removal may create a sense of insecurity among the members if the power is used frequently, as has been the case in India, Pakistan and even Britain. Therefore

> Ministers should reflect on the price they and their colleagues and successor - and indeed the nation - may have to pay for any arbitrary exercise of the power of dismissal which appears to deprive members of the reasonable degree of security they have a right to expect.[75]

In short, although the provision of removal must be present, the power must be exercised very cautiously and rather infrequently.

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[75]Robson, Nationalized Industry and Public Ownership, p. 242.

CHAPTER III

ROLE OF PUBLIC CORPORATIONS IN THE ECONOMY

Government Activity and Public Enterprise

Public enterprise is a "creature of societal imperatives"[1] and these have forced the government to take increasingly active role in the fields which were usually left to the private enterprise before. This State intervention of a positive kind in the ownership, operation and regulation of industries and services has now become a vast worldwide movement. This vast scale of the movement and its bewildering diversity has unquestionable social, economic and political significance.

The tremendous increase in the power and functions of government is felt by everybody and has become an ever-present reality of this century. The nineteenth century liberalism professing limited government has given way to the "web of government"[2] - which pervades all aspects of modern life. This phenomenon is universal at present, being true both in the developed and the developing countries. The developed countries are trying to

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[1] Frank P. Sherwood, The Problem of the Public Enterprise (Bloomington: Indiana University Press, 1966), p. 8. (Mimeographed).

[2] Robert M. MacIver, The Web of Government (New York: The Macmillan Co., 1947).

achieve the 'great society' through increased governmental activity in all aspects of life while in the developing countries, passing through a transitional phase from the developing to the developed society, the role of government is critical. In fact, it must provide many of the things for development which are usually provided by private enterprise in developed countries.[3]

The great depression of the 1930s forced governments in most countries to assume more functions in the country and undertake, among other measures, public enterprises to recover from the effects of the catastrophe.

Public enterprise, therefore, became a vital part of economic and social life of a country - more so in developing countries. In socialist countries like the U.S.S.R., public enterprise became the most important pillar of the economic structure. In capitalistic societies like the U.S.A., the public enterprise became supplementary to the private enterprise and its importance increased to such an extent that the governments were put face to face with the problem of

> devising ways and means of harmonising and integrating the economic policies and programmes of government with those of private economic interests in order to attain the highest possible level of well-being for the nation as a whole.[4]

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[3]An interesting discussion of this transition is given in Fred W. Riggs, Administration in Developing Countries (Boston: Houghton-Mifflin Co., 1964).

[4]George A. Steiner, Government's Role in Economic Life (New York: McGraw-Hill Book Co., 1953), pp.63-64.

Public enterprises thus became so widespread and diversified as to cover everything from public utilities to atomic energy and even cultural activities.

Unfortunately, public enterprise has remained like an academic secret and has "gained scant scholarly attention."[5] And as a result it still remains largely vague and there is a wide diversity of concepts of public enterprise "so much so that they mutually exclude one another."[6]

The specific factors that led to the increasing activities of the government are many, the most important of which are discussed briefly below.

First, political philosophy is the most important reason for increased activities of governments, especially in the field of economic activities. In socialist countries like Russia the situation is quite clear - governmental activity in all spheres of life is the core of the political philosophy, but even in countries like the U.K. and India a "socialist pattern of society"[7] is the goal of economic and political thinking. In the U.K., with the coming in power of the Labour Party, the vital industries are nationalized and thus put under direct government control.

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[5]Sherwood, op.cit., p.1.

[6]Nikola Balog, Administrative Management of Public Enterprises (Brussels: International Institute of Administrative Sciences, 1965), p. 3.

[7]Government of India, Planning Commission, Third Five Year Plan (New Delhi: 1961), p. 4.

Second, nationalism is considered another factor leading to the emergence of big government. This necessitates increased government activity to mold the diverse factors in the country into a cohesive whole. Even in economic development, which involves a large public sector "reactive nationalism"[8] is thought to be an important and favorable factor.

Third, a rising tide of expectations among the people is another important factor. As people become more educated and conscious of their needs and rights they expect the government to do more for them. The wide range of welfare services provided by the governments of the U.S., the U.K. and other developed countries are the responses to the rising tide of peoples' expectations.

Fourth, population pressure has forced the governments to take programs of urban planning, population planning, and housing and settlement.[9]

War, depression, natural calamities, demonstration effect, cold war and international agencies are other factors responsible for the increasing activities of the

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[8] W.W. Rostow, The States of Economic Growth (Cambridge: Cambridge University Press, 1963), p. 26.

[9] John C. Eddison, "Industrial Growth and Urban Land Requirements in East Pakistan," Pakistan Development Review, III, No.4 (Winter 1963), pp. 547-565.

government.

With the passage of time the needs and wants of people are increasing and the governments must take an active role in satisfying them and thus the sphere of government activity is mobile and grows constantly with the growth of civilization itself.

Importance of Public Enterprise in the Economy

In developing countries like Pakistan and India the importance of the public sector cannot be overemphasized. Detailed analysis and data on the share of public enterprise in the national income, savings and investment are not available. Therefore, only a broad and brief analysis is attempted here to give some idea about the importance of public enterprise in the economy of each of the countries under study.

One thing that is apparent in the economy of a country like Pakistan is that the government expenditure is steadily increasing as seen in the following table.

During the First Five Year Plan period (1955-60) Rs. 7,150 million were allocated to the public sector, which rose to Rs. 13,000 million and Rs. 30,000 million during the Second and Third Five Year Plan respectively.[10]

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[10] Govt. of Pakistan, Planning Commission, The Second Five Year Plan (1960-65) (Karachi: 1960), p. 9. and Govt. of Pakistan, Planning Commission, The Third Five Year Plan (1965-70), p. 40.

TABLE 2

RELATIVE SHARE OF PUBLIC & PRIVATE FIXED INVESTMENT IN PAKISTAN

(Million Rs.;1959-60 prices)

Type of Investment	1949-50	1954-55	1959-60	1964-65	Annual Compound Rate of Growth
Public Investment	310	610	1,710	3,070	16.5
Private Investment	810	1,590	1,720	3,320	9.9
Total Investment	1,120	2,200	3,420	6,390	12.3
Public Investment as percent of Total Investment	28	28	50	48	-

Source: Government of Pakistan, Planning Commission, The Third Five Year Plan (1965-70) (June 1965), p.5.

Indian public sector investments have also been increasing steadily and the total public sector investments were Rs. 4,500 million, Rs. 8,000 million and 61,000 million during the First, Second and Third Five Year Plans respectively.[11] These large increases are in contrast to the very slow increases in Britain where between 1960 and 1961 public sector investments moved up by only £134 million.[12]

The importance of public corporations in the public

[11] Government of India, Planning Commission, Third Five Year Plan, op.cit., p. 91.

[12] United Kingdom, Central Office of Information, Britain - An Official Handbook (London: 1963), p. 250.

sector investments varies with the country. In England "public corporations account for half of public investment"[13] while in India this amount was less than one-fourth by the end of 1965.[14] In Pakistan the government investment in public corporations at the end of 1965 was only 13 per cent of total public investment.[15] However, this share has been increased greatly and "public corporations and authorities are expected to handle around 55 per cent of the total public sector allocation under the Third Plan."[16]

In the field of savings the performance of public enterprise and public corporations is not very favorable. In Britain public corporations provide about 7 per cent of total savings. In Pakistan, according to a member of the Planning Commission, the savings of public corporations "did not come to much and the potentialities of public corporations for capital formation were not seriously exploited."[17] The Government only hoped that

> additional revenue may accrue to the public sector from some of the policy measures currently under the consideration of the government, such as the substitution

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[13] Ibid., p. 250.

[14] Ramanadham, The Structure of Public Enterprise in India, p.7.

[15] Govt. of Pakistan, Second Five Year Plan, p. 38.

[16] Guthrie S. Birkhead (ed.), Administrative Problems in Pakistan (Syracuse: Syracuse University Press,1966),p.119.

[17] Mahbub ul Haq, The Strategy of Economic Planning: A Case Study of Pakistan (Karachi: Oxford University Press, 1966), p. 152.

> of foreign exchange loans to private sector through PICIC and IDBP by a system which transfers rupee counterpart of these loans to the public sector, revision in the pricing policy of public corporations and general participation by the private sector in joint ventures with the public sector.[18]

In the field of employment in the public sector or the public corporations no data are avaiable on Pakistan. But in Britain about 10 to 12 per cent of the civilian working population is engaged in public enterprises. This share for Pakistan would be much lower simply because the relative area of manufacturing occupations, excluding agriculture, is not large. Ramanadham has computed the employment share of public sector to be "no more than 3 per cent of the total working force in India."[19] The figure for Pakistan cannot be far away from this estimate.

Therefore, it is evident that the public enterprise sector (including the public corporations), inspite of large investments by the government, still remains a relatively small part of the economy of Pakistan. Same is true of India. It must, however, be pointed out that the importance of the public enterprise should not be judged solely on the basis of monetary terms and direct results. Investments in the public enterprises have, on the whole, been of a capital-intensive nature and

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[18] Govt. of Pakistan, Third Five Year Plan, p. 74.

[19] Ramanadham, The Structure of Public Enterprise in India, p. 3.

many of these enterprises are new formations whose full potentialities of income-generation lie in the future. Besides, as all the three Five Year Plans of Pakistan emphasize, one of the major motives for public enterprise in Pakistan is to encourage private enterprise through building up of social overhead and by undertaking "industrial projects in those areas where private business is unwilling to venture."[20]

Nationalization Trends (Taking Over Versus Sponsoring))

Nationalization has been a growing phenomenon in a large number of countries of the world since the turn of this century. This has been especially so in countries like England, France, Italy and Russia.[21] Most of the nationalized industries and services in these countries are managed as public corporations. In Britain, the leader in this respect, nationalization has been advocated as early as 1890 when Sidney Webb published his book "Socialism in England".[22] The idea was further developed by Webb and later most notably by Herbert Morrison.

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[20] Govt. of Pakistan, National Planning Board, The First Five Year Plan, 1955-60 (Karachi: 1958), p. 87.

[21] A.H. Hanson, "The Organization of State Enterprises", International Review of Administrative Sciences, XXXI, No.2 (1965), pp. 106-117.

[22] R. Kelf-Cohen, Nationalisation in Britain: End of a Dogma (London: Macmillan & Co., Ltd., 1958), p. 3.

Nationalization in Britain started in earnest in 1926 when the Labour Government of Baldwin succeeded in establishing the Central Electricity Board and the British Broadcasting Corporation. But the nationalization process really got going during the decade 1940-50.[23] At present a large number of industries and services such as broadcasting, power supply, transport, steel and iron are the nationalized industries.

There has always been a decrease or increase in nationalization depending on whether the Conservative or the Labour Party was in power at the time. For example, steel and iron industry was nationalized under the Labour and later denationalized under the Conservative Government during the 1950s only to be nationalized again by the present Labour Government in 1966. However, the trend has remained towards increasing nationalization as the Conservative Party, against nationalization on principle, accepted it in cases of broadcasting, coal, electricity and many others.

In Pakistan and India, although following Britain in many cases, nationalization has been a very minor factor in public enterprise. The government ownership and management have come largely through the creation of new enterprises rather than taking over of already existing

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[23]United Kingdom, <u>Britain - An Official Handbook</u>, p. 263.

private enterprises as in Britain. There are only two cases of nationalization of existing companies in Pakistan. One is the Karachi Electric Supply Corporation (KESC) which was first established as a private joint-stock company in 1913 and taken over by the government in 1952.[24] The other is the Pakistan International Airlines Corporation which was established in 1955 through the taking over of The Orient Airways Ltd.[25]

The reason for this contrast with Britain is not far to seek. In Britain the main issue is of political philosophy and efficiency whereas in Pakistan the main object is that of a pioneer and a guide.

The Government of Pakistan has, however, entered into a wide range of industries through autonomous public corporations (including the mixed variety) such as film development, shipping, water development, electricity, forestry, industrial and agricultural finance and development, transport, television and radio broadcasting.

In India too, there has been very limited experience in respect of nationalization through taking over of existing companies with the most important case of the two airlines which were formed in 1953 as public corporations in place of eleven private companies.[26]

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[24] Government of Pakistan, Central Government Corporations (Rawalpindi: 1966), p. 57.

[25] Govt. of Pakistan, Government Sponsored Corporations, p. 83.

[26] Prakash, op.cit., p. 56.

For the management of nationalized industries most countries have chosen the corporate form as in the case of Britain. Ronald Edwards says: "as far as practicable I believe that nationalized industries should be run and governments should encourage them to run, as commercial undertakings."[27] This is because the emphasis that the governments put in the operations is always on the "enterprise" or "commercial" aspect. It should not, of course, be assumed that other forms of management have not been tried. France and Russia tried the department form of management without much success. Similar reasons made the Government of Pakistan to adopt the corporate form of management for most of the public enterprises.

Planning and Public Enterprise

Planning has become almost synonymous with rapid economic development in the developing countries. The

> term 'planning' implies merely that the government has organized its decision-making process so as to take account of all economic effects of each of its acts, the total program of action being a coherent one designed to achieve as rapid economic growth as is consistent with other national goals.[28]

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[27] Ronald S. Edwards, "The Influence of the Nationalized Industries," Public Administration, XXXIX (Winter 1961), p. 57.

[28] Everett E. Hagen (ed.), Planning Economic Development (Homewood, Ill.: Richard D. Irwin, Inc., 1963), p.1.

Planning used to be considered against individualism, democracy and freedom of mankind.[29] But at the present time countries including India and Pakistan have accepted planning as the best way to develop, allocate and utilize the resources of the country both in the public and the private sectors of the economy.

The absence of developed capitalistic tradition of private enterprise coupled with the strong desire of developing countries to 'catch up' with the developed countries made planning the only path to follow.[30]

The growing importance of public enterprises was almost a corollary step to planning. The private sector in a developing country cannot make as rapid a progress as the planners would like to see. Therefore, it becomes essential that the obstacles to the rapid growth of private enterprise be removed and the proper facilities provided. This, in fact, has been the object of public enterprises in Pakistan. As President Ayub has said,

> the government has limited its own role to providing a suitable framework for the private sector and to the creation of those facilities which the private sector had neither the ability nor the willingness to develop.[31]

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[29] F.A. Hayek, Road to Serfdom (London: Routledge and Kegan Paul Ltd., 1962), p. 149.

[30] O.K. Ghosh, Problems of Economic Planning in India (Allahabad: Kitabistan, 1957), pp. 1-2.

[31] Mohammad Ayub Khan, "Foreword", The Third Five Year Plan ,1965-70 (June 1965), p. iv.

The developed countries, however, do not need planning as urgently as developing countries, although Russia and Japan follow it while the U.K. makes unofficial plans as guidelines. Most democratic countries of the West can have the desired development through the control and encouragement of the private sector through fiscal and monetary measures. In countries which follow socialistic pattern of economy like Egypt and India planning and public enterprise play a major role in the economy of the country. The same is true of other developing countries, not from an ideological point of view, but from the point of view of practical necessity.

CHAPTER IV

MANAGEMENT POLICIES AND PERFORMANCE OF PUBLIC CORPORATIONS

The importance of management in the performance of any organization, especially those run on commercial basis, cannot be overemphasized. For public corporations management consists of two levels of people - those in the governing boards and those below the Boards. This latter group is responsible for the actual day-to-day running of the corporations. The first group of people is responsible for the setting up of policies for the corporations and the second group is responsible for carrying out those policies. In Chapter II the governing boards of public corporations have been discussed in some detail. In this Chapter the management policies will be discussed as well as the performance of the organization in carrying out the policies.

Management Policies

The success of the operations of a public corporation depends, mainly, on the policies adopted by the governing Board and carried out by the Managing Director and his staff. The main areas of policy include personnel, investment, pricing, profits and marketing. In the following sections an examination of these areas of policy will be made.

Personnel policy.-- The ultimate success of public corporations depends to a large extent on the calibre of personnel they can have or can develop. Therefore a sound personnel policy is one of the first things that the top management of public corporations should develop and adopt. This crucial importance of a sound personnel policy has been recognized only recently and the developing countries discovered during the last decade or two that the most important obstacle to their programs of rapid development is the lack of sufficient trained manpower. This general statement is equally applicable to the case of public corporations.

When a public corporation is created for the first time the personnel may have to be recruited from other business firms, or from the civil service, or from any other available source. As it develops and establishes itself, one should hope that the managerial personnel will be found mostly from within the organization and that anyone will have the chance of going as high up the promotional ladder as he deserves. Without these provisions a high morale cannot be built up and the organization cannot work as well as it should. Several problems, however, arise in this connection.

First, for smooth operations a public corporation should have a "regular flow of potential top-level managerial material up the rungs of the promotion ladder."[1] This, however, is hard to obtain not only in developing countries bu also in the developed countries. On the one hand there is a shortage of college graduates, and on the other, there are youth's distaste for bureaucracy, civil service rigidity without its respectability and privileges, lack of security, lack of opportunity for rapid promotion, promotion on seniority basis rather than on merit and the prevalence of dying industries in the public enterprise sector such as the coal and railways.[2] In addition, there are no adequate facilities for the training of new entrants to make them suitable for higher positions. However, it is only recently that the public corporations in Britain, India and Pakistan have started thorough training programs not only within their own organizations but also outside. For example, the nationalized industries in Britain have started staff colleges for their employees and are even sending them to Oxford and Cambridge.[3]

In Pakistan, there are various training programs

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[1]A.H. Hanson, <u>Managerial Problems in Public Enterprise</u> (Bombay: Asia Publishing House, 1962), p. 77.

[2]<u>Ibid</u>., p. 79.

[3]Michael Shanks (ed.), <u>The Lessons of Public Enterprise</u> (London: Jonathan Cape, 1963), p. 176.

for the employees but Pakistan International Airlines is probably the best in this respect. This corporation "has its own ground training school where not only its own personnel are trained but these facilities are also extended to other airlines of neighbouring countries."[4]

Second, the public corporations in most countries employ a large number of old guard personnel or personnel from other organizations and they bring with them their usual traditional practice of avoiding responsibility and new ideas. In such an environment "too often, boldness is regarded with distaste; a reputation for unorthodoxy weighs more heavily in the balance than the achievement of success."[5]

Third, there is a lack of comparability between the public corporations and private businesses. If the public corporations are to keep their recruits they must offer comparable salaries and other remunerations to private industries, otherwise there will be a rapid turnover of scarce managerial skill and personnel. However, a problem here is that public corporations are not completely free, except for the TVA of the U.S., to pay any salary to their employees that they want. The Herbert Committee on

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[4] Govt. of Pakistan, Ministry of Finance, Central Government Corporations (Rawalpindi: 1966), p. 70.

[5] Shanks, op.cit., pp. 179-180.

Electricity in England commented that the starting salary to graduate trainees is low, in 1956 it was £475 per year. "In our opinion, it is still inadequate to attract the high quality graduates which the industry simply must have if it is to be a technically progressive industry."[6]

In India and Pakistan, the public corporations are empowered to make rules for the "remuneration and privileges"[7] to be offered to their employees, but, as in the case of East Pakistan Industrial Development Corporation, "the corporation shall not without specific approval of the Government offer to an officer or employee salary higher than that admissible to a government servant of equivalent rank."[8]

Fourth, an important question of personnel policy in developing countries is - should civil servants be recruited in the public corporations or not. The question has been discussed in Chapter I and here only the opinion of a senior civil servant (at present Chairman of East Pakistan Agricultural Development Corporation) may be mentioned. According to him "one who has worked in a government office for any length of time is likely to

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[6] Quoted in Hanson, op.cit., p. 82.

[7] The Indian Air Corporations Act 1953 (No. 27 of 1953).

[8] East Pakistan Industrial Development Corporation Rules, 1965 (Rule No. 19).

lose boldness, vision and imagination."[9] Inspite of such opinion from civil servants themselves there is a higher proportion of civil servants in the public corporations of India and Pakistan than in Britain or the U.S. This is mainly due to scarcity of trained personnel and the desire for direct government control over the public corporations.

Fifth, there is the question as to how much freedom should be allowed the corporations to pursue their own personal policy. There seem to be considerable control from government officials on the personnel policy of public corporations at present in all countries. However, the voice against this control is growing. In Britain, the protagonists of public corporation insist that they should be "as free to hire, fire, grade and promote its personnel as any private enterprise."[10] The same view has recently been expressed in Pakistan in the following words, "a corporation in effect should have the right to promote or demote, reward or punish its employees irrespective of whether they are deputitionists or not."[11]

Prof. Hanson, however, thinks that public corporations in countries like India and Pakistan, where

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[9]A.K.M. Ahsan, "Top Level Management and Personnel Problems of Public Enterprises," Seminar on Problems of Public Enterprises (Lahore: National Institute of Public Administration, 1967) (Mimeographed), p.14.

[10]Hanson, op.cit., p. 84.

[11]Ahsan, op.cit., p. 9.

personnel practices must start from scratch, should not be given full freedom in their personnel policy. His main arguments are that, first, full freedom in this respect will lead to competition among public enterprises for scarce personnel. Second, the government must have a kind of regularity in personnel policy to prevent corruption and nepotism.[12]

Investment policy.-- Public corporations are large organizations and therefore they need to invest a considerable amount of money in capital expenditures. The purposes may vary widely, ranging from plant capacity expansion as in the case of Electricity Supply Corporations to the setting up of new industries as in the case of Industrial Development Corporations in Pakistan. Investment in the case of financial corporations differ in meaning and policy from those of industrial or commercial corporations.

Each corporation has its annual and long-term investment programs. The sums spent are enormous. For example, the Central Electricity Generating Board in Britain invests well over 150 million sterling pounds annually.[13]

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[12] Hanson, op.cit., pp. 85-87.

[13] Shanks, op.cit., p. 37.

Public corporations in Pakistan and India also spend huge sums of money in their investment programs. For instance, the Pakistan International Airlines Corporation has a long-term investment plan on the basis of increasing the services by connecting more cities by its flights. To buy new aircraft for this purpose and other connected capital expenditure PIA has planned to "invest Rs. 34.5 crores Rs. 345 million during the Third Plan period."[14]

What should be the criteria for such huge investments of public corporations? To this question no satisfactory answer has yet been given. The theoratical criterion is simple enough - the corporation "should work at a capacity justified by consumer preference; and no more (or less) resources should be drawn into it than are remunerated comparably with the factors employed in other activities."[15] In practice, however, the criterion is very difficult to apply, especially for development corporations and financial corporations which are created expressly to develop some underdeveloped industry or service, or to provide finance to some specially defficient

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[14] Government of Pakistan, Government Sponsored Corporations , p. 87.

[15] V.V. Ramanadham, The Problems of Public Enterprise (Chicago: Quadrangle Books, 1960), p. 142.

area of activity. For example, the Agricultural Development Bank of Pakistan has been created to provide "credit, both in cash and kind, to agriculturists for the purpose of agriculture and to persons engaged in cottage industries in rural areas, for the development needs of such industries."[16] Under these conditions the strict economic criterion is extremely difficult. For instance, the credit that is advanced to cottage industries will most probably earn a higher profit if invested in modern large-scale industries but this is not what is desired in this instance. It is the development and perpetuation of small-scale cottage industries that is desired and therefore it is more a case of social justice rather than economic use of resources. In the light of such difficulties the Herbert Committee of Britain expressed that "in the nature of things the use of capital cannot be as strictly or as closely guided by economic considerations as is the case in private industry."[17] Prof. Ramanadham, however, suggested "profitability as the basic criterion of investment."[18] It must be pointed out here that as commercial-type organizations profitability is an important consi-

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[16] Govt. of Pakistan, Central Government Corporations, p. 22.

[17] Ramanadham, The Problems of Public Enterprise, p. 142 quoting the Report of the Committee of Inquiry into the Electric Supply Industry (1956), para 347.

[18] Ibid., p. 142.

deration but social considerations are also important and therefore, a public corporation cannot ignore them in developing its investment policy. However, in developing investment policies costs and benefits must be calculated for all projects including social projects to see whether it is profitable for the community to undertake the particular project.

The investment program of a public corporation usually needs the approval of the responsible minister and the investment policy must take into account the minister's opinion and suggestions. In Britain, the statutes require . . . that the public corporations, in forming their programmes of re-organization or development involving substantial capital outlay, shall act on lines settled from time to time with the approval of the appropriate Minister."[19] Similar provisions also govern the investment of public corporations in India and Pakistan.

Pricing policy.-- When a public corporation produces goods and services the question of pricing them comes up with a number of problems. The purposes of a public corporation are different from those of a private corporation. As Philip Taylor has pointed out "the interests of Government are inevitably broader than

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[19]William A. Robson, Nationalized Industry and Public Ownership (London: George Allen & Unwin Ltd., 1962), p. 299.

those of private enterprise."[20] Therefore, the public corporation must take into consideration many factors, which are not very important in the case of private enterprise, in setting up its pricing policy.

What should, then, be the basis on which the public corporations may set their pricing policy? Should they charge their prices on the basis of average costs or marginal costs? Should there by cross-subsidization, that is, should the customers of a service or a product in one area pay a part of the price for customers in another area? These have been the controversies about pricing but whichever side one supports it seems obvious that the "price policy pursued by a public enterprise must be decided ultimately in relation to the needs of the economy as a whole."[21]

There is a generally accepted policy that public corporations should not make excessive profit which is quite possible as most of them operate in a monopoly or near-monopoly market. The question still remains, however, as to whether a public corporation should make any profit at all. The case may be found where a public enterprise is created to run at a "planned loss"[22] but

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[20] Nabagopal Das, The Public Sector in India (New Delhi: Asia Publishing House, 1962), p. 113 quoting Philip E. Taylor, The Economics of Public Finance (New York: 1952).

[21] Hanson, op.cit., p. 138.

[22] Das, op.cit., p. 112.

it will be a very exceptional case indeed. The more usual case is, however, the one where the enterprise is required to avoid loss but the limit to profit is ensured by ministerial direction. This has been the case in Britain where the public corporations were required to break-even taking one year with another and this has been changed in 1961 in a Government White Paper which laid down that a break-even over a period of five years is to be required.[23] However, this is the lower limit and there is no upper limit to profit.

There is, again, a controversy as to whether average cost or marginal cost should be used for pricing of products and services of public corporations. The British statutes are very vague in this respect - "to produce at prices and in quantities that were in the public interest."[24] This is interpreted "as an injunction against making profits through the deliberate restriction of the market."[25] The question, however, remains as to how far the corporations can indulge in marginal pricing of individual products and how far the costs of various products should be averaged to arrive at the average price to be charged.

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[23] Shanks, op.cit., p. 59.

[24] Ibid., p. 63.

[25] Ibid., p. 63.

Marginal cost is the cost of producing additional units and marginal cost pricing is intended to price a product or a service according to the cost of producing additional units. But as all users must pay the marginal cost price the profits to corporations would be enormous and this obviously is counter to the general policy of public corporation operations. This is why marginal cost pricing is not used by public corporations.

The average cost pricing on the other hand, is widely used because (a) it is polular as it appears 'fair' to the average consumer, (b) it is not confined to public corporations but is used extensively in the private sector, and (c) it may reduce some administrative costs.

Average cost pricing is not prohibited by statutes and the cross-subsidization of one product by another or of the same service at different regions is quite widespread. For instance, the postal and telephone services charge the same price over a wide region - this is a case of simple averaging. But when a transport corporation like the London Transport Executive must continue services on some routes which are unprofitable, on social grounds the profitable routes bear the burden of deficit. As the Committee of Inquiry into London Transport commented "the profitable services must subsidize the unprofitable, the latter being as important as the former."[26] Thus

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[26] Report of the Committee of Inquiry into London Transport, HMSO (1955), para 72, quoted by Robson, op.cit., p. 293.

"the long-distance traveller [in Britain] is forced to pay nearly six times the real cost of his transport in order to subsidize the operation of local train services which would otherwise be unable to compete with road passenger transport."[27]

This cross-subsidization principle has been criticized on the ground that it continues to provide a service at a loss which can probably be provided by another agency at a profit. It is argued that a loss should be made up by a subsidy from the Government. This view has apparently been adopted in the case of PIA which operates the inter-wing services at half the normal price - the other half being paid by the government as subsidy so that the records of the corporation is not made unfavorable by this service. Similar steps have been proposed for British European Airways (BEA) but has not been adopted yet.

In the face of so much controversy regarding the pricing policy of corporations, specially constituted tribunals have been proposed for setting the prices. But, as has been the experience of the British Transport Tribunal, they are very slow in reaching decisions and therefore are of not much use to the corporations. Prof. Hanson feels that "in the last resort the Minister should

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[27]A.H. Hanson (ed.), Nationalization: A Book of Readings (London: George Allen & Unwin, Ltd., 1960), p. 227.

be responsible for the enterprise's price policy. This may mean, in practice, that the Minister lays down certain limits."[28] He also thinks that the practice whereby the Minister is responsible "for prescribing maximum prices seems . . . to have much to commend it."[29] However, the Minister being a layman in most cases, must consult experts in this field before deciding on the price policy for a corporation. Even then the Minister can only lay down broad policies the exact interpretation of which must depend on the corporation concerned.

Public corporations in India and Pakistan are mostly development or financial types which do not sell any product or service in the usual sense of the terms. However, the corporations which are of commercial type such as the Air Corporations in India and Pakistan, Railway Boards in Pakistan, usually follow discriminatory pricing policy, that is, the average cost pricing policy. The East Pakistan Water and Power Development Authority, with almost complete monopolistic position in the supply of water and power in East Pakistan, has the following provision in its statute about prices,

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[28]Hanson, Managerial Problems in Public Enterprise, p. 140.

[29]Ibid., p. 140.

> The rates at which the Authority shall sell power and water shall be so fixed as to provide for meeting the operating costs, interest charges and depreciation of assets, the redemption at times due of loans other than those covered by depreciation, the payment of any taxes and a reasonable return to investment.[30]

In essence, the limit is between break-even and some profits but the exact level is left for the corporation itself to decide.

Profit policy.-- The controversy as to whether a public corporation should have a profit-making policy or a break-even policy has been mentioned in the preceding section. From the above discussion and from reasons of common sense it seems essential that a public corporation must make profits. What the proportion of profit will be is a question which must be decided at the ministerial level and not by the Board of the corporation. A public corporation is created to provide goods and services to the people at a commercial operations level. And if the corporation is not to be a public liability it must make profits. The widely accepted principle that public corporations should be self-supporting also calls for profit-making. This, however, does not mean making profit to the utmost possible limit because then the raison d'etre of the public corporation will disappear and the public corporation would be nothing more than a private corporation

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[30] East Pakistan Water and Power Development Authority Ordinance 1959 (Ordinance No. 1 of 1959), section 25(ii).

owned by the State.

As Prof. Robson says, a public corporation "should not be run in order to provide a source of revenue for either the national government or for local authorities."[31] There are, however, other purposes for which a surplus may be required. These would include attaining relative financial independence, reserve for deficit years, reserve for expansion and modernization.

In no country is there a clear-cut statutory provision as to the amount of profit that may be earned by the public corporations, except for the provision in Britain of breaking even within five years. However, the opposition towards profit-making by public corporations has grown weaker in Britain as is evidenced by the fact that they are now allowed to make substantial profits. For example, the British Overseas Airways Corporation made a record profit of £23,900,000 during the year ending 31st March 1967.[32] A similar case is presented by the Pakistan Security Printing Corporation which made a sufficient profit last year to declare a 10 per cent dividend and give two months' bonus salary to its employees.[33]

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[31]Robson, op.cit., p. 283.

[32]Annual Report of the Chairman of BOAC, Daily Star (Beirut), August 17, 1967.

[33]Daily Business Post (Karachi), November 12,1966.

However, a public corporation cannot aim only at profit and "it is often bad commercial practice - bad labour relations and bad public relations - to pursue the profit motive without regard to broader social considerations."[34] The question of profitability for a public corporation must be viewed within the overall socio-economic context.

Determinants of profitability.-- Profitability in a public corporation, as has been pointed out earlier, is influenced by various factors including the non-economic considerations. Four basic factors may be identified which have a bearing on the profitability of a public corporation.

First, public corporations, especially in the underdeveloped countries, usually undertake those enterprises which are characterized by their high requirements of capital input and low returns. As a result, these are the enterprises which the private sector is usually unwilling to undertake. The profitability prospects are further lowered by the fact that nationalization is undertaken in many cases on the desire to bring essential and strategic goods and services under government control without giving any consideration to their profitability

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[34]Herbert Morrison, "Public Control of Socialized Industries," Public Administration, XXVIII (Spring 1950), p. 4.

aspect. Again, government takes control with the aim of providing essential but scarce goods and services as in the case of British Transport and Electricity. In Pakistan and India, inadequacy of private sector initiative, entrepreneurial skill and capital led the governments to undertake enterprises in different fields without major consideration of profitability.

Second, as public corporations deal with the government on a large-scale the problem arises that the dues of public corporations accumulate with the government which are not paid to them. An example is the case of Damodar Valley Corporation which "has not been able to realise the sale proceeds on water made available to the Government of West Bengal, since the latter has contested the rationale of the charge."[35]

Third, the public corporations which have considerable indirect effect on other parts of the economy cannot make profit on the consideration that if they did so then the indirect returns may be lowered. For example, the Agricultural Development Corporations in Pakistan are in charge of distributing fertilizers to the farmers in the two provinces. They could make, due to their monopoly positions in the market, high profits but this policy

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[35]V.V. Ramanadham, Finances of Public Enterprises (Bombay: Asia Publishing House, 1960), p. 13.

would then run counter to the Government's "grow more food" campaign which they are trying to encourage by providing fertilizers at low prices to the farmers.

Fourth, the profitability of public corporations is linked directly with the efficiency of the technical, organizational and financial operations. The first two kinds are relatively easy to achieve as they involve engineering and the application of good management principles. But the last, financial efficiency, is the most difficult to achieve because it involves many aspects of the corporations' activities as well as internal and external decision-making.

Upto the present time the profitability of public corporations in Britain, India and Pakistan have been relatively low and they have depended considerably on the savings of others. However, considering the fact that public corporations now form a substantial part of the public sector investments, the question of profitability becomes very crucial indeed. They cannot be allowed to incur losses continuously and they must try to build up reserves or at least break-even in their operations so that the economy does not have to bear the extra burden of supporting them by cutting down other activities.

<u>Disposal of profits</u>.-- A public corporation is not usually exempt from liability for any tax, duty, levy

or other charges, whether national or local. Supposing that it has a net surplus after paying all usuall liabilities, what is it to do with this surplus? Should it go to the government and deposit the surplus with the it's Treasury or should the corporation keep the surplus to use for its expansion. The answer to these questions has an important influence on the efficiency and performance of a public corporation.

The British experience is that surpluses are usually kept by the corporations to be used as the Boards of the corporations see fit. In the case of British Post Office, however, a fixed sum of £5 million was agreed to be paid to the Exchequer and "any remaining surplus going to the Post Office's revenue reserve."[36]

In India "some of the corporations are empowered to declare dividends, as contrasted with the payment of interest charges; and the rates of dividend are flexible, though within statutory limits."[37] This is also true of some public corporations in Pakistan.

This provision for dividend payments is peculiar to the public corporations of India and Pakistan but are justified on the ground that they are really 'mixed' and

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[36]Robson, op.cit., p. 283.

[37]Ramanadham, The Structure of Public Enterprise In India, p. 153.

not 'wholly-owned' public corporations and as such the dividend mechanism serves as an attraction to private capital. The table below shows break-down of the disposal of profits of the Industrial Development Bank of Pakistan for two years. The total indicates the total net profit, except for taxes, for the respective financial years.

TABLE 3

DISPOSAL OF PROFITS OF INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

Appropriation	1964-65	1965-66
Transfer to General Reserves	1,967,000	3,308,000
Transfer to Special Reserves	786,000	1,540,000
Dividend	4½%	6%
Provision for Taxes	3,539,000	6,252,000
Bonus to Staff	324,936	427,871
TOTAL	7,966,936	13,327,871

Source: Government of Pakistan, Ministry of Finance, Government Sponsored Corporations (Rawalpindi: 1967), p. 14.

One of the most important contrasts between the British and Indo-Pakistani public corporations is that whereas the British corporations keep their net profits, most of the Indo-Pakistani corporations "tend to make over their net profits to the government or have to use the surpluses as directed by the government."[38]

The creation of a reserve fund is probably the most important way of disposing of surpluses. The statutes require proper allocations to the reserve fund to be charged against the reserves of public corporations. However, in Britain, "these allocations are regarded as legitimate expenses to be taken into account before the net surplus for the year is determined."[39] In other countries the more usual practice of putting a part of the net surplus into the reserve fund is found. Prof. Robson expresses the usually accepted view of disposing of surpluses in the following words:

> if a public corporation makes a surplus in the course of business, it must by law be applied for the purposes of the corporation as defined by Parliament in the relative statute. This means in practice that any excess revenue would ultimately be ploughed back into the undertaking, or be spent on improving the service or quality of goods, in pursuing research or development, reducing prices, increasing wages, or bettering conditions of employment. The normal method of disposing of a new surplus is to place it to reserve. Indeed, the main reason for making a net surplus is to build up the reserve fund.[40]

Performance of Public Corporations

For any organization the actual performance is the basis of existence and continuation. Therefore, the

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[38] *Ibid.*, p. 154.

[39] Robson, *op.cit.*, p. 317.

[40] *Ibid.*, p. 283.

measurement of performance is a very important aspect of the organization's activities. This need is more important for public corporations than private ones because in the latter profitability is the raison d'etre and provides a rough-and-ready measure of performance, while in the former it is only one of the considerations. The efficiency of a public corporation may be measured by different methods and by different sets of statistical figures such as input-output figures, labor costs, cost of maintenance, amount of capital invested, productivity and so on. All these, valuable as they are, do not provide a single objective test of performance or efficiency of a public corporation.

The simplest measure of performance of an enterprise is in terms of its rate of profit. This, however, cannot be a true indication of performance for the fact that public corporations are not run for maximizing profit and that public corporations usually operate in a monopolistic market. Therefore, it cannot indicate efficiency of operations. Still, Sargent Florence and Gilbert Walker contended that profitability is the best primary test of efficiency in the public sector.[41] Whatever the limitations of rate of profit, it must be noted that a sizable profit or at least a break-even gives a more favorable impression

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[41]P. Sargent Florence and Gilbert Walker, "Efficiency Under Nationalization and Its Measurement," Problems of Nationalized Industry, ed. W. A. Robson (London: George Allen & Unwin Ltd., 1952), pp. 195-196.

of a corporation's performance than a loss. For instance, PIA and BOAC both suffered losses in the early 1950s and have been earning considerable profits in recent years indicating a much better performance than before.

A public corporation may be termed efficient, if, besides achieving the lowest possible cost in satisfying a given demand, it is able to stimulate demand and regulate its pattern as well as continuously lower the cost per unit. The increase in demand may be quite easily noted but the difficulty remains that the increase in demand may be the result of many other external factors.

Productivity as a measure of performance is again of limited value. While both productivity of worker and productivity of capital are important, raising the former is perhaps more important because there is a large shortage of skilled workers in the developing countries and this shortage must be filled from within the country whereas capital can possibly be obtained from both inside and outside the country.

Increase in employment in a public corporation is a very important aspect of good performance in the developing countries. According to Prof. Om Prakash "the performance of State Corporations will be judged by their ability in providing employment on the basis of merit . . . , enforcing reasonable standards of wages . . . , providing better conditions of work and living, and arranging for a high standard of welfare facilities."[42]

The question of development and stability is a very important one too. But the measurement is at best subjective - for it is not easy to measure quantitatively whether a particular corporation has succeeded in fulfilling its statutory obligation of developing a particular industry or service to the best advantage of the society. However, some objective tests can be introduced into this measure such as (a) the extent to which a corporation has reached its short and long-term targets, (b) trend of operating revenues and profits, (c) how far private participation has been obtained (relevant for development corporations like the Industrial Development Corporations in Pakistan), and (d) how far price stability has been achieved (in case of regulatory corporations).

It is obvious from the foregoing discussion that the measurement of performance of a public corporation is very complex and needs a fairly sophisticated apparatus to undertake it. Hanson thinks that developing countries like India and Pakistan can ill afford the people to staff such an apparatus and "therefore, it may be necessary to adopt rather simpler, rather rougher methods of measuring managerial efficiency."[43] Prof. Galbraith, however, feels

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[42]Om Prakash, The Theory and Working of State Corporations (London: George Allen & Unwin Ltd., 1962), p. 186.

[43]Hanson, Managerial Problems in Public Enterprise, p. 99.

that while all the measures are important the measure of earnings is the most important. He says,

> if I had to lay down a measure for performance for the publicly owned corporations in the developing country, it would be the earnings that it provides to put into its own expansion . . . . The most successful firm would be the one which by its efficiency and drive finds the earnings that allow it the greatest growth.[44]

Performance of public corporations in Britain has been, on the whole, good and "each one of them is undoubtedly in a better condition than it would have been under private enterprise . . . its operating efficiency is higher, its equipment more up-to-date, and its future prospects brighter."[45] One will surely contest Prof. Robson's sweeping and over-confident conclusion but one must admit the generally good performance of the British public corporations.

Public corporations in Pakistan also have, generally shown good performance (Appendix D). In India, however, the financial performance of public corporations have been less favorable.[46]

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[44]John K. Galbraith, Economic Development (Cambridge, Mass.: Harvard University Press, 1962), p. 98.

[45]Robson, Nationalized Industry and Public Ownership, p. 446.

[46]Ramanadham, The Structure of Public Enterprise in India, p. 101.

CHAPTER V

PUBLIC CONTROL AND ACCOUNTABILITY

Need and Purpose of Accountability

Public corporations are government owned organizations and they operate very important industries and services. When such organizations are autonomous, with freedom of action in many respects, the need for controling their activities becomes very important. These corporations are accountable, or should be so, to various classes in the society which are in some way affected by their activities, viz., the government, the legislature and consumers.

Accountability, from a practical point of view, means that "the public must have the final word in the control of the industries it owns."[1] In concrete terms it means that "account should be rendered by a public undertaking to some higher authority and that, if the latter is dissatisfied, it can order that steps be taken to put matters right."[2] Accountability, however, is not the same thing as control in the strict sense of the term but "one is meaningless without the other".[3] Therefore,

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[1]United Nations, Some Problems in the Organization and Administration of Public Enterprises in the Industrial Field (New York: United Nations, 1954), p. 55.

[2]Nabagopal Das, The Public Sector in India (2nd ed.; London: Asia Publishing House, 1962), p. 88.

[3]*Ibid.*, p. 88.

in much of the discussion on the subject accountability has been used synonymously with control.

Difficulties in the proper control of public corporations arise mainly due to the dilemma between business flexibility and public accountability. The problems become acute because of the insistence on maximum flexibility and maximum accountability at the same time. Inspite of the assertion of Prof. Galbraith that "autonomy does not mean less public accountability. On the contrary, it means more,"[4] it seems reasonable to assume that "the greater the insistence on accountability, the less the possibility of being flexible, and vice versa."[5] The dilemma is a difficult one to solve. One cannot break off the thread of accountability but at the same time controls over public corporations ought not to stifle initiative and curb flexibility. Thus, as Musolf has said, "to arrive at a working balance between freedom and accountability is an exercise in artful government."[6]

Difficulties are further accentuated by the fact that although there has been a wide discussion of public

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[4]John K. Galbraith, Economic Development (Cambridge, Mass.: Harvard University Press, 1964), p. 98.

[5]Das, op.cit., p. 88.

[6]Lloyd D. Musolf, Public Ownership and Accountability : The Canadian Experience (Cambridge: Cambridge University Press, 1959), p. 76.

accountability very little has been written on the specific objectives and contents of public accountability and very little emphasis has so far been placed on the important problem of establishing criteria or canons by which the public corporations are expected to be accountable. There has been a great deal of discussion as to the authority to which the corporations should be accountable but not on by what criteria they are to be held accountable. Under such a situation, the investigatory bodies "could only point out past mistakes without offering the managers valid criteria to follow in a subsequent period."[7]

The following is an enumeration of the objectives or purposes of public accountability as proposed by Prof. Ramanadham:[8]

(a) that the commercial performance of the corporation is efficient, both in the short run and in the long run;

(b) that the Board's decisions shall not contain implications of social policy but shall be based on commercial criteria in the main;

(c) that any parliamentary approval or ministerially directed decisions are implemented in practice;

(d) that the Minister, as distinct from the Board, shall be accountable for his influence on the Board's working;

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[7] V.V. Ramanadham, Problems of Public Enterprise (Chicago: Quadrangle Books, 1959), p. 113.

[8] Ibid., p. 114. and Ramanadham, The Control of Public Enterprises in India (New York: Asia Publishing House, 1964), pp. 23-27.

(e) that targeted results are achieved;

(f) that national objectives are attained;

(g) regulation of undue power of managers;

(h) regulation of power concentration; and

(i) carrying out of ministerial responsibility to Parliament.

As to the content of public control Ramanadham lists four broad categories: (a) staffing, (b) operational matters, (c) expansion, and (d) financial policies.[9] Public control in the policy aspects of these categories can be expected to ensure adequate accountability of the public corporations.

In considering the accountability and control of public corporations the main emphasis is placed on external control but Prof. Dimock has emphasized the role of the Board as the agency of internal control and accountability. He even considers the Board a "safe alternative to supervision by the legislature."[10] He, in fact, calls the Board "little legislature" in this respect. Vitally important as they are, Boards will not be discussed here. The role of Boards has been discussed before and here external agencies of control will be the main subject

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[9] Ramanadham, The Control of Public Enterprises in India, pp. 28-32.

[10] M.E. Dimock, Business and Government (3rd ed.; New York: Henry Holt and Co., 1957), p. 426.

of discussion in this section.

The concept of accountability includes a wide range of topics and one cannot wisely over-emphasize one aspect in disregard or neglect of the others. Because of this complexity and diversity of issues which fall under the general heading of public accountability that no one agency can be expected to ensure proper control and accountability and this is why various agencies exist for the purpose.

Methods of Control

Various methods and agencies have been set up to ensure proper control and accountability of public corporations. They will be examined under the following headings:

1. Control by Statutes
2. Direct Government Control
3. Parliamentary Control
4. Financial Control
5. Control Through Special Agencies
    a) Special Committees
    b) Periodic Expert Inquiry
    c) Consumers' Councils.

A graphic representation of these various agencies of control of public corporations is given on the next page.

METHODS OF CONTROL OF PUBLIC CORPORATIONS

- Statutory Control
  - Legislation
  - Rules & Regulations
  - Acts & Articles
- Government Control
  - Informal Control
  - Directions
  - Board Composition
  - Rules
- Parliamentary Control
  - Parliamentary questions
  - Debates & Resolutions
  - Public Accounts Committee
  - Estimates Committee
  - Special Comitees of Parliament
- Control by Special Agencies
  - Comptroller and Auditor General
  - Special Control Agencies
  - Consumer Councils
  - Public Enterprise Comission
  - Ad Hoc Committee

In considering the various agencies of control and accountability three major points must be borne in mind. First, in all control methods the availability of correct and adequate information is vital, without which none of the control method are likely to be effective. Second, it is more important to establish clear-cut criteria of accountability than the creation of a multitude of control agencies. Third, arrangements which promote continuously good operation by the corporation are better than increasing number of agencies of control, e.g., if the statutes clearly indicate the roles of minister, parliament and other agencies in the control of public corporations a few agencies may be enough for effective control and accountability.

Control by Statutes

The basic instrument which determines the nature and extent of control over a public corporation is the legal document governing its formation and working. As pointed out earlier the statutes should clearly indicate the spheres of authority among the various parties involved. But there will always remain a part of the corporation's activity "over which neither autonomy nor governmental direction can be permanently laid down in the constitutional document . . . the desideratum lies in the promotion of helpful traditions or sparing governmental intervention."[11]

Statutory provisions which clearly specify what a given public corporation must do or must not do, or define the limits within which a certain decision may range, are the most satisfactory instrument of public control. They provide clear knowledge and guidance to the Board and relieve the government of the need to issue frequent directions. In short, they minimize the area of ad hoc control by the minister.

The Governments of India and Pakistan seem to have given considerable thought in formulating these provisions. One of the clear cases is found in the Electricty (Supply) Act of India which specifies the contribution to general reserve at "an amount not exceeding one half of one per centum per annum of the original cost of fixed assets employed by the Board."[12]

The statutory provisions control cover all aspects of a public corporations activities including government control, parliamentary control and other types of control. These are discussed in the following sections with examples of statutory provisions regarding each type of control.

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[11] Ramanadham, The Control of Public Enterprises in India, p. 47.

[12] Quoted in Ramanadham, ibid., pp. 52-53.

Direct Government Control

Public corporations are wholly or partly government owned organizations and therefore the government must have a great deal of control over them. This control is usually exercised by the responsible Minister. The power of the Minister varies in this respect from country to country but as Ernest Davies points out, "ministerial control is in practice more real than is publicly admitted."[13] In Pakistan the Minister has the following powers:[14]

(a) To appoint the chairman and key officers at the top, as well as Directors, except to the extent they are elected;

(b) To accord previous approval to all capital programmes, market borrowings, and allocation of profits;

(c) To appoint auditors;

(d) To give general direction in matters affecting the national interest and on broad questions of policy; and

(e) To call for periodical or special reports, and to order an inquiry into the affairs of a statutory body in special circumstances.

Powers of the British and Indian Ministers are similar vis-a-vis the public corporations.

Most controversy has been raised by the fourth of the above ministerial powers. In Britain, for example,

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[13] Ernest Davies, "Ministerial Control and Parliamentary Responsibility of Nationalized Industries," Problems of Nationalized Industry (London: George Allen & Unwin Ltd., 1952), p. 109.

[14] Government of Pakistan, National Planning Board, The First Five Year Plan (1955-60) (Karachi: 1958), p. 100.

the Minister has the power "to give to the Board directions of a general character as to the exercise and performance by the Board of their function in relation to matters appearing to the Minister to affect the national interest, and the Board shall give effect to any such directions."[15] What is the national interest? Who decides it? It seems that the products and services which have wide economic, social and political consequences fall within the group of 'national interest' affecting items. It is also true that the Minister is the right person to decide whether an item fall within this group or not and it is usually on the Minister's directions that uneconomic activities are undertaken by the public corporations. The operation of transport services in uneconomicareas in many countries is an example of ministerial directions of public corporations' activities.

It must, however, be emphasized here that governmental or ministerial direction should be on questions of 'policy' only and not on day-to-day running of the corporations. But who is to decide whether a question is one of policy or not? The public corporation statutes usually provide that when any such question arises the government's decision shall be final.

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[15] The Coal Industry Nationalization Act, 1946 quoted by Ernest Davies, op.cit., p. 111.

One other aspect of ministerial direction is that it may have, as mentioned before, uneconomic consequences and unless these are assessed, the real performance of the Boards cannot be satisfactorily measured. This has happened in the case of Air Corporations in Britain. The statutes of Air Corporations in India and Pakistan, however, have taken this point into consideration and have provided that the government shall "make good the deficits traceable to its directions."[16]

The Minister's most important power is that of appointing the members of the Board. "These powers of appointment are very sweeping."[17] The Minister not only can appoint them but more importantly, re-appoint them and remove them. "It is from this . . . that he derives the powerful personal influence which every minister has over all aspects of the policies of the boards."[18]

The use of such sweeping powers often takes the form of informal rather than formal directions. In fact, as Prof. Hanson points out about Britain, "very few general directions were issued. The Minister preferred

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[16]Ramanadham, The Structure of Public Enterprise in India, p. 165.

[17]R. Kelf-Cohen, Nationalisation in Britain (London: Macmillan & Co. Ltd., p. 1958), p. 166.

[18]Austen Albu, "Ministerial and Parliamentary Control," The Lessons of Public Enterprise, ed. Michael Shanks (London: Jonathan Cape, 1963), p. 93.

to influence the policies pursued by the Board through more informal methods."[19] The Minister usually decides on a policy after consultation with the Board and the Board follows it without any written directive from him. This has come about because of the power of the Minister over the Board members and also because many of the Board members are government employees and are therefore in the habit of obeying the Minister without questioning. This practice, however, has given rise to the constitutional problem as to whether a particular policy pursued by the Board is the Board's own policy or the Minister's policy. An example of this is the 'Clow differential' according to which different rates were charged for electricity in winter and summer in Britain. The Minister told the Parliament that the British Electricity Authority had agreed to operate the scheme but in the annual reports the British Electricity Authority revealed that it had agreed to operate the scheme only at the Minister's insistence.[20] It seems impossible, however, to prevent informal pressure by the Minister on Boards while the appointment, re-appointment and removal of Board members depend on him.

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[19] A.H. Hanson, Managerial Problems in Public Enterprise (Bombay: Asia Publishing House, 1962), p. 115.

[20] E.P. Pritchard, "The Responsibility of the Nationalised Industries to Parliament," Parliamentary Affairs, XVII, No. 4 (Autumn 1964), pp. 439-449.

Parliamentary Control

Parliament or the legislature in a democratic country is usually the creator of public corporations. Moreover, it is the representative body of the people of the country. As such its role in the control of public corporations is naturally considerable. One may possibly even go so far as to say that it is the only agency which commands 'public accountability' from the public corporations. However, in practice, there have been many difficulties in the proper parliamentary control over them and the matter is still far from settled.

The first scope of parliamentary control occurs when the Bill to create a public corporation or to nationalize a private industry is presented before it. It is the Parliament which establishes the basic framework of public accountability. This is probably the best time for members of Parliament to examine the pros and cons of a proposed public corporation. Another chance comes when an Act comes to Parliament for amendment. It gives a fair opportunity to the members of examining the progress of the public corporations. Parliament also gets the opportunity to exercise control when proposals for raising capital, granting of subsidies and grants come for approval. A very important method of parliamentary control is to use various parliamentary committees. The most direct method of parliamentary control is, however, direct questioning of the Minister concerned by the members of Parliament.

The efficiency of this method of parliamentary control, however, depends on two considerations: first, the time that Parliament can spare for the questions, and second, the restraint and purposefulness with which the members of Parliament use the privilege. It seems to be the experience, unfortunately, that the time for debates on public corporations in the Parliament of Britain, India and Pakistan is too short for any discussion of much significance. But Hanson rightly thinks that the matter may be much improved "by the simple expedient of curtailing debates on less important matters."[21] Members of Parliament in all these countries spend most of the important debating time on public corporations in asking trivial local and detailed questions rather than questions of policy and overall efficiency. This is partly due to the "lack of adequate knowledge about nationalised industries on the part of the MPs."[22]

All blame, however, cannot be put on the members of Parliament only. The system of disseminating information to the members is not yet very efficient in any of these

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[21]Hanson, Managerial Problems in Public Enterprise, p. 118.

[22]Ibid., p. 119.

countries. The Minister is usually the person who decides whether a question is on policy or not and as such may refuse any number of questions on which he does not want to answer. The annual reports of public corporations are submitted to the Minister and are available to members of Parliament. The complaint is, however, that "the essential information is not always segregated from the detail and made available in popular form"[23] and some of the annual reports are not detailed enough, especially in India and Pakistan.

Special committees known usually as Select Committees of Parliament have been appointed in Britain and are under consideration in India, for helping to provide more information on public enterprises to the members of Parliament. These are discussed in more detail in a later section.

Progress in the development of parliamentary control in Pakistan has not been great. The control has so far taken the form of approving the budgets. The most important debates that take place in the Provincial Assemblies are on the Railway Budgets of the two provinces. The budgets of the East Pakistan Industrial Development Corporation and the East Pakistan Water and Power Development Authority are to be submitted to the Provincial Government for approval but there is no provision to place them in the Provincial Assembly.

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[23] Davies, op.cit., p. 110.

Parliamentary control has developed much more in India than in Pakistan, but still the questions and comments are generally limited to strong criticisms of the operations of public corporations rather than to any concrete suggestions for improvement. Here too some of the reports and budgets are submitted to the government and others to the legislature concerned. For example, the audit reports and annual reports of the Life Insurance Corporation of India, Indian Airways Corporation and the budget of the Damodar Valley Corporation are laid before the Legislature.

One notable contrast of India and Pakistani public corporations with British ones, in respect of parliamentary control, is that in England annual budgets are not required to be submitted to the government or the Parliament. This is considered to impose a limitation on the autonomy of public corporations. However, this contrast may be explained by the desire of the Governments of India and Pakistan to have more control over the public corporations than is considered necessary in England.

Financial Control

This is an extension of the parliamentary control and as such calls for a compromise between democratic rights of Parliament and the autonomy of the corporations.

The compromise varies in different countries. In Britain the Parliament does not insist on the audit of corporations' accounts by the Comptroller and Auditor General, while in India and Pakistan the Parliaments have made the provision of both private audit and audit by the Comptroller and Auditor General at the same time for most of the public corporations. However, "the provision for an independent audit by the Comptroller and Auditor General would, obviously, be invoked only where the normal audit reveals gross mismanagement."[24]

The British type of audit by private auditors is in contrast with the practice in India and Pakistan. This has two reasons. First, British auditors, due to their long established professional tradition, have developed high degree of civic sense. Second, many of the Board members in British public corporations are experienced business executives and therefore they tend to look for the best commercial practices. The case in India and Pakistan, however, is different. Here the government must have tighter control on the vital financial matters and as such in some cases the Comptroller and Auditor General himself is required to audit the accounts of the public corporations. For instance, the statute

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[24]Asoka Chanda, Indian Administration (London: George Allen & Unwin Ltd., 1958), p. 202.

creating the East Pakistan Water and Power Development Authority provided that

> the accounts of the Authority shall be audited every year by the Comptroller and Auditor Generator in such manner as may be prescribed. Copies of the audit report shall be sent to the Authority, and, with the comments of the Authority, to the Provincial Government and shall also be available for public inspection. The Authority shall carry out any directive issued by the Provincial Government for rectification of an audit objection.[25]

Other aspects of financial control include the parliamentary or government approval on budgets, loans, investments, reorganization and other functions which have been discussed before.

The organizational means of ensuring financial accountability in developing countries like India and Pakistan have been summarized by Prof. Ramanadham in the following:[26]

(a) Clear financial procedures.

(b) Efficient internal audit.

(c) Commercial audit by private auditors.

(d) Proper internal organization of the enterprise, based on optimal criteria and decentralization.

(e) Provision of a really autonomous top board.

(f) Appointment by the government, or under government approval, of a financial Advisor to the enterprise.

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[25] East Pakistan Water and Power Development Authority Ordinance, 1959 (Ordinance No. 1 of 1959), section 28.

[26] Ramanadham, The Control of Public Enterprise in India, pp. 134-135.

(g) Government control through board composition.

(h) Reservation of certain financial matters for government decision.

(i) Audit by the Comptroller and Auditor General.

(j) Requirement that the budget be submitted to the government.

(k) Investigations by the Estimates Committee, the Public Accounts Committee and other Committees of Parliament.

(l) Periodic non-parliamentary ad hoc enquiries.

Some of the items in the above list may give greater controling power to the Government but it seems that this is necessary under the present circumstances which may be relaxed when they develop and gain more experience in the management of public corporations.

Control Through Special Agencies

The governments and parliaments of different countries have appointed many special agencies for helping them in the control of public enterprises. Some are created as permanent agencies while others are created on ad hoc basis. Many have been mentioned in the discussion above. The more important of these special agencies will be examined in the following sections.

Special committees.-- Special Committees are usually agencies of the Parliament to ensure proper parliamentary control of public enterprises by obtaining better information on the working of the corporations. The idea of Special Committees on public enterprises (SCPE) came into India and Pakistan from the Select Committee of Britain. The Select Committee in Britain first came into being in December 1951, but this Committee and the one formed in 1955 had very restricted terms of reference and so in 1956 a Select Committee was appointed "with virtually unrestricted terms of reference."[27]

The Select Committee consists of a small group of Members of the House of Commons to whom are available the annual reports and statements of accounts of the nationalized industries. The Committee takes one industry at a time and give it as thorough an investigation as it can manage.

The main purpose of the Select Committee "is to provide information which will be of interest to Members of the Parliament and which will enable them to deal with the affairs of public enterprises in a more informed and intelligent manner."[28] The Select Committee, however, suffers from the disadvantage that all the members are Member of Parliament and therefore are not likely to have much knowledge about public enterprises. Moreover, they are not helped by experts such as the Comptroller and

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[27]Albu, op.cit., p. 102.

[28]Hanson, Managerial Problems in Public Enterprise, p. 103.

Auditor General. Inspite of these disadvantages the Select Committee in Britain "has performed a most useful function."[29]

In India and Pakistan the Public Accounts Committee and the Estimates Committee are two agencies of Parliament for helping in the control of public enterprises. The first analyzes the audit reports with the help of the Comptroller and Auditor General and makes recommendations to the Parliament while the latter is a laymen's Committee which is responsible for reporting on ways and means of improving organization, efficiency and suggesting the forms in which estimates shall be presented to Parliament. These Committees are, however, limited in their knowledge of public corporations and are likely to be overworked as they have the whole range of Parliament's activity under their jurisdiction. It is because of this reason that in Britain the Public Accounts Committee and the Estimates Committee do not usually investigate into the affairs of public corporations. However, the public corporations in India "have been examined with great thoroughness by the Estimates Committee and the Public Accounts Committee of Parliament."[30]

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[29]Albu, op.cit., p. 102.

[30]Prakash, op.cit., p. 194.

The two merits that a Select Committee has over the Public Accounts Committee and the Estimates Committee are - first, it is solely concerned with public enterprises and therefore can devote more time and energy in its investigations; and second, it can adopt a broader approach than the Public Accounts Committee or the Estimates Committee.

Periodic Expert Inquiry.-- The idea of appointing an expert committee of inquiry on public corporations naturally comes up as the parliamentary committees, discussed above, are usually composed of laymen who cannot be expected to understand or take into account all the intricate and technical matters of the organization and operation of a public corporation. The idea of such an expert committee in India and Pakistan again came from Britain where the first such committee was the Beveridge Committee on Broadcasting set up in 1949. Later other similar committees such as the Chambers Committee on Transport (1953), Herbert Committee on Electricity (1954), Fleck Committee on the National Coal Board (1953), were appointed.[31] The reports of these committees brought about substantial organizational and other changes in the public corporations concerned.

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[31] Robson, Nationalized Industry and Public Ownership, p. 208.

In India too there have been a number of expert committees on public corporations such as the Krishna Menon Committee on State Undertakings (1959), Sucheta Kripalani Committee on the Indian Finance Corporation, Chagla Committee on Life Insurance Corporation of India and P.S. Rau Committee on the Damodar Valley Corporation.

Pakistan has not yet appointed an expert committee on any specific public corporation. However, there have been a number of expert inquiry committees on broader subjects such as the Credit Enquiry Commission (1958) and the Food and Agriculture Commission (1960). Substantial changes have taken place and new public corporations have been set up as a result of the recommendations of these expert committees.

The functions of such committees are mainly limited to policy questions. Three main purposes may be served by such a committee. First, it may supply fresh thought on the organization and efficiency of a public corporation and on the changes that experience may warrant in the statutory provisions governing it. Second, it may examine the social effects of the operations of a particular public corporation and to assess the compatibility between the Board's policy and the government's policy in the field concerned. Lastly, it may investigate into any gross discrepency or mismanagement in the operations of a public corporation. An example of this last case is the Chagla

Committee on Life Insurance Corporation of India.[32]

The interval between two expert committees on the same corporation varies in different countries. In Britain the interval has been lengthened from seven to ten years as they take up much of the time of the Board and their staff, and as more time is needed to see how any changes introduced after one inquiry work out before a further inquiry is begun. In India and Pakistan, however, the expert committees are appointed purely on a case by case basis without any definite interval. Prof. Om Prakash has suggested that it would be good if it is possible to have "one such expert review in three or four years."[33] This interval, however, is too short for recommendations to be put into effect and to give an indication of the effectiveness of the new measures. Moreover, as there is a large number of public corporations in India and Pakistan a three of four year interval will require a large number of expert committees to be set up to cover all the public corporations. An interval of five to ten years will probably be better suited to the conditions in these two countries.

The question of the composition of the expert committees has given rise to some controversy. Mr. Herbert

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[32]Ramanadham, The Control of Public Enterprises in India, p. 190.

[33]Prakash, op.cit., p. 209.

Morrison suggested that "competent business people," "ordinary good citizens," and "parliamentarians" should be included in such a committee of inquiry.[34] Prof. Om Prakash would like to have "highly experienced accountants, engineers and administrators"[35] in a committee of inquiry. Others would like to see trade union leaders and other spokesmen of public opinion in addition to members of Parliament. It seems likely, however, that a wide diversity of membership of the committee will prove an obstacle in the efficient working of the committee. Furthermore, these committees are intended to be expert committees and as such should only include experts who are concerned with an important aspect of the corporations' activities.

It is this diversity of membership and the ad hoc nature of expert committees that sometimes make a common approach to similar problems difficult and has given rise to the thought that there should perhaps be a permanent expert committee. Prof. Robson thinks that there is a need "for a permanent body of experts in regular touch with the administration of the nationalized industries and able to give an informed account of actions which

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[34] Report from the Select Committee on Nationalized Industries, 1953, p. 49 quoted in Ramanadham, Problems of Public Enterprise, p. 128.

[35] Prakash, op.cit., p. 209.

affect consumers and public generally, with such evaluation as may be possible."[36] Prof. Ramanadham has a similar body in mind when he says that

> the most effective agency for the regulation of public enterprise policies in respect of pricing, profits, capital allocation, expansion and contraction, and for the protection of the consumer interest will be an expert body, which may be entitled the Public Enterprise Commission, consisting of three to five persons including an economist, an accountant, a businessman and an eminent public personality well versed broadly in economic affairs.[37]

Consumer councils.-- The interest of the consumers is usually forgotten altogether or given very little emphasis in discussions and provisions of any commercial organization. Consumers of competitive industrial products can make their likes and dislikes felt through the price mechanism. However, when a monopoly situation is faced, as in the case of most public corporations, the consumer is helpless. It is therefore necessary to have some kind of arrangement by which the ordinary consumers can put up their grievences to the management of the public corporations. Consumers being the 'disguised owners' of the public corporations, their claim to accountability from the corporations is further strengthened.

The use of Consumer Councils has been quite exten-

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[36] Robson, Nationalized Industry and Public Ownership, p. 209.

[37] Ramanadham, The Control of Public Enterprises in India, p. 185.

sive in Britain, while in India there has been a modest beginning in this direction. They are not used in Pakistan probably because most of the public corporations are financial and developmental in nature and therefore do not call for any consumer representation.

In Britain the public corporation statutes provide for the creation of consumers' councils or consultative councils. The corporation is obliged to consult the second while the first is used only to refer matters from other quarters.[38] The Herbert Committee on Electricity commented on the usefulness of these councils by saying that "in a quiet and modest way the Consultative Councils have done and are doing creditable work in safeguarding the consumers' interests."[39]

One striking feature of these consumers' agencies is that the members of these bodies are not consumers' representatives as might be expected but Government appointees, most of whom cannot claim to represent the consumers. In India, for example, out of a total of 54 members of the National Railway Users' Consultative Council "hardly 6 persons were left to speak for the common consumer."[40] It is because of such arrangements

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[38] Robson, Nationalized Industries and Public Ownership, p. 262.

[39] Quoted in R. Kelf-Cohen, op.cit., p. 251.

[40] Prakash, op.cit., p. 211.

that the "vast majority of . . . consumers throughout the country Britain are completely ignorant of the existence or purpose of the Consultative Councils,"[41] and in India "the layman is not aware of such Committees; and, even if he comes to know of their existence, he tends to look upon them with indifference."[42] Under such a situation if consumers' councils are to be effective they must be more representative of genuine consumer interests and the public must be made more interested in these councils.

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[41]Kelf-Cohen, op.cit., p. 251.

[42]Prakash, op.cit., p. 211.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Public corporations as a device for running public enterprises have become important in this century. This is true both in developed as well as developing countries. Perhaps they are more important in the latter group of countries because of their major role in the planned economic growth of these countries.

The discussion and analysis in this study have tried to show the importance, role, operation, problems and performance of public corporations in Pakistan, India, Britain and to some extent in the U.S.A. Here some conclusions will be drawn about public corporations in these countries, especially in Pakistan and India. Some recommendations will follow the conclusions and are meant for improving the operation and effectiveness of public corporations in Pakistan and India.

Conclusions

1. The Governments of Pakistan and India have tremendously increased their investment in the economic development of their respective countries. They have relied heavily on public corporations in this public spending.

Thus the public corporation has become one of the most important tools in terms of public sector investments in the economic development of these two countries. Unfortunately, there has not been much study on this very important organization either in India or in Pakistan.

2. The public corporations are characterized by Executive or Legislative creation, autonomous management, separate legal status and from over half to complete government ownership. In this respect Pakistani and Indian public corporations differ from their British counterparts which are fully government-owned.

3. Public corporations are of various natures but they can usually be grouped into one of three broad classes - developmental, financial and public utilities. Most of the public corporations in Pakistan and India are of the first two types whereas the last type dominates in Britain.

4. Most of the public corporations in Britain have been created by nationalization of existing business firms while in Pakistan and India most of them have been newly created.

5. The dependence of Pakistan and India on planning their economic development has necessitated the growth of public enterprises in the firm of public corporations. However, Pakistan employs them mainly to provide a suitable framework for the growth of the private sector of the economy while in Britain it is a matter of ideology and

in India it is a compromise between ideology and practical considerations.

6. The public corporations are legally independent entities but in practice they are under considerable influence of the Minister to whom they submit their financial statements and reports.

7. A public corporation is usually organized either as a centralized or decentralized organization depending on the purpose and range of the activity of a particular corporation. Pakistan and India have preferred the centralized form but decentralized forms are also found, especially in Pakistan where central government corporations must work in both provinces of the country.

8. On internal organization most authorities agree that the Acts establishing public corporations should specify managerial sub-division without encroaching upon the flexibility of autonomous management. The practice of this delicate balance has not been very satisfactory in any of the countries under study.

9. The appointment of Civil Servants as chief executives of public corporations in Pakistan and India has tended to increase government control and curb entrepreneurial initiative and autonomy.

10. The operations of public corporations are often hindered by the cumbersome procedure of project-scrutiny by various government departments.

11. The political influence of members of Parliament and the Minister often hinders the efficient operation of public corporations. This has been very frequent in Pakistan and India and only a little less frequent in Britain.

12. There are three ways of financing the operations of a public corporation - appropriations from government, self-financing and market operations. Annual appropriations in the government budget usually start the public corporations and this may go on indefinitely. The second method goes on concurrently with the first while the third method is permitted only to a few public corporations in each of the countries under study.

13. The public corporations in Pakistan and India often have private participation in the financial structure while in Britain it is non-existent.

14. Public corporations are run by Boards of Directors of various sizes. They are similar to private corporation Boards. However, in Pakistan and India Civil Servants and other government officials dominate the Boards. The Chairmen of the Boards and the Managing Directors are usually Civil Servants. In many cases the Chairman himself is the chief executive of the corporation.

15. Policy Boards are preferred in Britain and India while in Pakistan there is no apparent preference for either Policy Boards or Functional Boards.

16. Between the representative and appointive Boards the countries under study have preferred the latter because appointed members are usually chosen on the basis of ability and experience.

17. The size of Boards vary widely. In Pakistan, for instance, membership ranges between three and sixteen.

18. In Pakistan about 75 per cent and in India about 56 per cent of the public corporation Board members are government officials. Because of the widely different conditions and the long distance between the two provinces, there is usually a provision in Pakistan to have members from both wings in the Boards of central government corporations.

19. The tenure of Board members is usually staggered in all the countries under study, usually varying from three to five years. In Pakistan, the tenure of official members is usually unspecified.

20. The Minister has the power of removal of any Board member in Pakistan, India and Britain, but this power has quite frequently been used, in the first two countries, giving a sense of insecurity of tenure to the members.

21. Lack of sufficient trained manpower is hampering the growth and efficiency of public corporations in India and Pakistan. This situation is aggravated by the employ-

ment of a large number of government officials who are used to the routine and slow working pattern of government offices.

22. Noncompetitive salaries have tended to make public corporation jobs unattractive to qualified and experienced youngmen in Britain. In Pakistan and India, however, there is a tendency to offer higher salaries than many government departments and private business firms.

23. Public corporations are not completely free, except the TVA of the U.S., to follow any personnel policy they find suitable to their needs.

24. Investment policy of public corporations is influenced by social and general development considerations rather than depending solely on economic considerations. The Ministerial approval needed for investment plans makes the profitability criterion even harder to apply.

25. Public corporations are allowed to make profits by all the countries under study but excessive profits are not encouraged.

26. The profits made by public corporations in Pakistan and India, after meeting all expenses, reserves, depreciation and other commitments, are handed over to the Government Exchequer which limits the growth and expansion of corporate activities. This is in sharp contrast to the British practice of allowing profits to be kept with the corporation to be used at its discretion.

27. Some Pakistani and Indian public corporations are allowed to declare dividends. This is done because they are mostly 'mixed corporations' with private investment while in Britain there is no question of dividends as the public corporations are wholly government-owned.

28. Public corporations are generally required, like private corporations, to create reserve funds for meeting contingencies and other requirements.

29. Cross-subsidization is widespread in public corporations selling services. This allows providing a service at a loss which can probably be provided better by another agency, private or public.

30. Measurement of performance of public corporations is still unsatisfactory. However, financial condition and profits are still considered the best indicators of performance. The performance of many public corporations in Pakistan and Britain have been good while in India it has been less favorable.

31. Accountability and control are special aspects of public corporations. The creating agencies must have control and the public corporations must be accountable to these agencies. However, the difficulty is in having adequate control without stifling autonomy and flexibility of operations.

32. Areas of public control are mainly: staffing, operational matters, expansion and financial policies.

The agencies of public control are mainly: the Statutes, Executives, Parliament and Special Agencies.

33. Statutory provisions of Pakistani and Indian public corporations seem to be thorough and clear-cut in contrast to British provisions. Clarity in the division of responsibility and authority minimizes confusion.

34. Government control of public corporations is the most powerful in Pakistan and India. This is done through ministerial directives, employment of government officials at the top executive posts, financial sactions, government audit and others. The ministerial power of control seem to have been abused in Pakistan and India.

35. Parliamentary control has not been very effective in Pakistan and India because of lack of understanding of members of Parliament of the structure and functions of public corporations. Parliament very rarely has time to consider public corporation activities. Furthermore, it is difficult for members of Parliament to get information on public corporations as Ministers usually refuse to answer critical questions.

36. Financial control in Pakistan and India is exercised through audit by the Comptroller and Auditor General while it is done through private auditors in Britain. The audit by the Comptroller and Auditor General (CAG) or both by the CAG and private auditors is necessary because the tradition of professional ethics has not been developed in Pakistan and India yet.

37. Special Parliamentary committees, expert committees and consumers' councils are used for the control of public corporations. However, committees of members of Parliament lack the experience to do a thorough job. They are doing a good job of keeping the activities of public corporations in the public eye. The most effective agencies for improving the operations of public corporations, seem to be the expert committees used in India, Pakistan and Britain. The ad hoc nature of these expert committees, however, makes reviews time consuming.

Recommendations

It is clear from the above conclusions that the public corporations in the countries under study are not operating with maximum effectiveness and efficiency. There are many aspects of a public corporation where improvements can be made to improve its effectiveness. Following are some recommendations which may considerably improve public corporations' operational efficiency and their contribution to the planned economic development of Pakistan and India.

1. Public corporations have become very important in the economies of Pakistan and India and therefore whatever activity they pursue is bound to have long ranging effect on their economies. In such a situation a mistake or failure to take the right step at the right time may be very costly to the society. To avoid these costly mistakes

the activities of public corporations must be studied closely and in great details. However, very little study and research of this nature is being conducted at present in these two countries. Studies of all corporations together have been made but mostly by official sources. Objective studies by experts are needed and should be made. The Universities, government-owned as they are, are probably best suited for this kind of studies. The corporations themselves should cooperate fully in this respect.

2. The statutes creating a public corporation should specify in greater detail the responsibilities and authority of the top executives of the corporation and the Minister responsible for it. Ministerial interference, both direct and indirect, should be kept at a minimum. This can be best ensured by limiting the Minister's activities regarding the public corporations to issuing the general policy directives to be followed and leaving the rest to the individual corporation executives.

3. The Minister should retain the power of appointment or removal of Board members. He should, however, exercise this power on the recommendation of an independent committee. This will ensure security of tenure of Board members.

4. Heavy reliance on Civil Servants to run public corporations should be minimized. This is necessary to dilute government interference in the running of the corporations and to ensure that the corporations can work with maximum autonomy. Civil Servants cannot be expected

to disagree with the Minister or top government officials. Furthermore, they are trained for routine and well-established pattern of work which is completely different from the dynamic, risk-bearing undertakings of corporations.

5. The prevalent practice, in Pakistan and India, of combining the posts of Board Chairman and Managing Director curbs the independent supervisory power of the Board. Separation of these two posts will ensure more independent Board decisions on the activities of public corporations.

6. Pakistan should follow the Indian and the British practice of having policy-making Boards devoid of any functional powers since a large number of organizations have the services of a limited number of experienced top executives.

7. The size of Boards should range between five and ten members to keep the Boards small enough to work as a close team and at the same time to have members of diverse backgrounds and experiences.

8. The procedures used for the approval of projects should be simplified to increase the efficiency of operation of the corporations. For example, when a project of a corporation needs a government department's approval, the project may be prepared in the presence of a department representative rather than the project being shuttled back and forth several times between the two offices, thus saving much time and effort.

9. The corporations should try to build up sizeable reserves as quickly as possible to achieve some financial independence of the government's annual budget appropriations. The dividend declaration may be delayed a few years or the amount may be kept low to build up such reserves. This step will decrease dependence on an uncertain amount of finance and also reduce delay and official interference.

10. Private participation in the finance of public corporations should be further encouraged so that the government has only a bare majority share in them. This will create public confidence and release government funds to be invested in other projects.

11. Public corporations should recruit their employees on a general competition basis rather than have government department officials on deputation. To increase the availability of trained personnel for the public corporations, attractive salaries and other benefits should be offered so that qualified and aggressive youngmen are attracted.

The public corporations should probably establish a training institute on the line of the presently existing National Institutes of Public Administration (NIPAs) where new trainees may be given short courses on business management and refresher courses to old employees. On the job training in the detailed business of any particular public corporation should follow the initial training period. This initial training and refresher courses may also be provided by special arrangement with the Institutes of Business Administration of the various Universities in the country.

12. A public corporation should be completely free to pursue any personnel policy it finds suitable, regardless of the employees being government officials or not.

13. The heads of divisions within the public corporations should be people who have sufficient experience in similar work rather than the people from completely different organizations who have very shallow, if any, knowledge about the job they are supposed to do.

14. The investment policy of a public corporation should be mainly dependent upon economic considerations, at least in the long-run. Social and other benefits should be taken into account, but they should be reduced to monetary terms as far as practicable. Ministerial direction, if it goes against the judgment of the management, should be clearly indicated in the statements and reports of the corporations.

15. Cross-subsidization should be minimized. If a service or a product, which is produced by a public corporation and considered necessary by the government, does not at least break even in the long-run, then it should

be handed over to some other public or private agency which can provide the same service or product without loss.

16. Public corporations should not be used as a source of revenue for the government. Therefore, they should be allowed to keep their profits for use at their discretion for expansion, modernization or other uses considered necessary by the Board and management.

17. Proper accountability and control of public corporations should be ensured but not in the present manner. The statutory provisions in Pakistan and India are generally clear but the powers of the Minister and other government department officials should be limited. Parliament should spend more time on discussions of the public corporation activities and the responsible Minister should answer to questions raised by members of Parliament instead of evading them by various excuses or outright refusal to answer.

18. The audit control by the Comptroller and Auditor General (CAG) should be maintained but the audit should only be done in case there is reason to doubt the honesty of the private auditors. This will save much time and effort for the busy CAG and his staff and also release corporation staff to go on with their normal work.

19. Expert committees should examine each public corporation in all its aspects every five years and suggest improvements. As there are a large number of public corporations at the central and provincial levels in Pakistan

and India a full-time expert committee of three to five members should be established at each level. Their work may be facilitated by having a permanent office to which all public corporations, within the jurisdiction of the particular expert committee, should submit copies of their statements and reports regularly and provide any other information which the committee may require from time to time.

The above recommendations have been made on the assumption that the broad organizational set-up and the general relationships with other organizations and departments are to be maintained as they are at present. Following is a suggestion which is yet to be tried in any country. This has the possibility of greater success than the present set-up of public corporations with less worries to the governments concerned. The concept is somewhat different from the concept of public corporations as they are known today in the developing countries. It is closer to the Tennessee Valley Authority idea than to the existing public corporations in Pakistan, India or Britain.

This new type of public corporations will be similar to the present 'mixed corporations' of Pakistan and India with about 51 per cent of the total investments from the government. The administration, however, will be entrusted to a leading entrepreneur or experienced business executive who has a name for initiative and drive. This person should be given attractive terms to take this new venture. The government should give only the general directives as to the purpose and goals and leave the rest to the corporation. The person to be chosen should be motivated mainly by a sense of service and achievement rather than monetary rewards. The operations of the corporation should be examined by a government authority or the expert committee proposed above, after three to five years to evaluate the performance and suggest improvements. On the basis of this evaluation other similar corporations may be set up.

The Chief Executive will operate the corporation like a private corporation to achieve the set goals. He will presumably operate mainly on economic costs and benefits considerations.

The benefits of this kind of public corporations will be that the society will get the services or products at the most competitive level and in a more efficient manner. Cross-subsidization, red-tapism, lack of initiative, shifting of responsibility, favoritism and other hindrances will be minimized and the government departments will not be over-burdened with additional work. Furthermore, private nature of the corporation and the reputation of the Chief Executive and his business experience will command respect and confidence in the public as well as business circles thus helping to attract private investment into the corporation.

The idea of this new type of public corporations is not, however, without dangers or drawbacks. The choice of the Chief Executive, who is to be given a free hand in running the corporation, is the most crucial step in the success or failure of this kind of a corporation. If his choice is biased or a wrong man is picked for the job, then the corporation is doomed to failure from the beginning. In a situation where there are very few experienced and successful business executives, as in all developing countries, it will be hard to find the right people to head this kind of public corporations.

The idea, however, seems to have good prospects of success and therefore it should be given a trial. The choice of the first man will be vital to the success of the whole idea. Therefore, the government should be very careful in the choice of this first man.

APPENDIX A

KEY TO THE ABBREVIATIONS USED

ADBP = Agricultural Development Bank of Pakistan.

BEA = British European Airways.

BOAC = British Overseas Airways Corporation.

CAG = Comptroller and Auditor General.

DVC = Damodar Valley Corporation.

EPIDC = East Pakistan Industrial Development Corporation.

EPRTC = East Pakistan Road Transport Corporation.

EPWAPDA = East Pakistan Water and Power Development Authority.

IDBP = Industrial Development Bank of Pakistan.

IFC = International Finance Corporation.

KESC = Karachi Electric Supply Corporation.

NIPA = National Institute of Public Corporation.

PIA = Pakistan International Airlines.

PICIC = Pakistan Industrial Credit and Investment Corporation.

SCPE = Special Committee on Public Enterprises.

TVA = Tennessee Valley Authority.

WPIDC = West Pakistan Industrial Development Corporation.

APPENDIX B

CENTRAL AND PROVINCIAL PUBLIC CORPORATIONS
IN PAKISTAN AT THE END OF 1966

Name of Corporation	Number of Board members	Date Established	Ministry/ department to which reports submitted
1. Pakistan Refugee Rehabilitation Corp.	9	April 1948, Reorganized Jan., 1960	Finance
2. Pakistan Industrial Development Bank	11	Feb.29,1949, became bank July 18,1961	Finance
3. Pakistan Security Printing Corporation	7	March 10, 1949	Finance
4. National Bank of Pakistan	14	Nov.9,1949	Finance
5. House Building Finance Corporation	7	April 18, 1952	Finance
6. Pakistan Insurance Corporation	9	May 8, 1952	Finance
7. Pakistan International Airlines Corporation	9	Jan.,1955	Defense
8. Agricultural Development Bank of Pakistan (known as Agricultural Bank upto 1961)	7	April 30, 1957, reconstituted 1961	Food and Agriculture
9. Pakistan Industrial Credit & Investment Corp.	16	November 26, 1957	Industries
10. Atomic Energy Commission	4	Dec. 11,1959, reconstituted May 25,1965	Fuel,Power & Natural Resources
11. Capital Development Authority	3	June 27,1960	-
12. Oil and Gas Development Corporation	3	September 20, 1961	Fuel,Power & Natural Res.
13. National Shipping Corp.	9	Sept.15, 1963	-

APPENDIX B (Contd.)

Name of Corporation	Number of Board members	Date Established	Ministry/ department to which reports submitted
14. Karachi Electric Supply Corporation	10-12	1913, taken over in March,1952	Fuel, Power & Natural Res.
15. State Bank of Pakistan	12	1948	-
16. Investment Corporation of Pakistan	11	1966	-
Government of East Pakistan:			
17. Dacca Improvement Trust	9	Aug.9,1956	Works
18. East Pakistan Jute Marketing Corporation	3	June,1957	Commerce,Labor and Industry
19. East Pakistan Small Industries Corporation	4	May 31,1957	Commerce,Labour and Industry
20. East Pakistan Inland Water Transport Authority	3	Nov.,1958	Works
21. East Pakistan Water and Power Development Authority	3	Jan.1,1959	Fuel,Power & Natural Res.
22. Chittagong Development Authority	7	Sept.1959	Works
23. East Pakistan Forest Industries Development Corporation	4	Oct.,1959	Commerce,Labor and Industry
24. East Pakistan Road Transport Corporation	5	Feb.,1961	Works
25. Film Development Corp.	5	May 21,1957	Commerce,Labor and Industry
26. Khulna Development Authority	12	Jan.21,1961	Chief Secretary
27. East Pakistan Agriculture Development Corp.	5	Oct.16,1961	Agriculture

APPENDIX B (contd.)

Name of Corporation	Number of Board members	Date Established	Min./dept. to which reports submitted
28. East Pakistan Industrial Development Corporation	3	July 1,1962	Industries
29. East Pakistan Shipping Corporation	5	March 7,1964	Chief Secretary
30. East Pakistan Fisheries Development Corporation	6	March 25, 1964	Chief Secretary
Government of West Pakistan:			
31. Karachi Port Trust	11	1886	Railways and Communications
32. West Pakistan Road Transport Corporation	7	Oct.12,1957	Railways and Communications
33. Karachi Development Authority	5	Dec.13,1957	Works and Rehabilitation
34. West Pakistan Water and Power Development Authority	3	April 24, 1958	Fuel,Power & Natural Res.
35. Karachi Road Transport Corporation	6	May 18,1959	Railways and Communications
36. West Pakistan Agriculture Development Corp. (abosorbed powers of Thal Development Authority, Dec. 13,1962)	5	Sept.21,1961	Agriculture
37. West Pakistan Small Industries Corporation	5	May 5, 1962	Industries
38. West Pakistan Industrial Development Corporation	3	July 1,1962	Industries

Source: Adapted from Ralph Braibanti, Research on the Bureaucracy of Pakistan (Durham,N.C.; Duke University Press, 1966), Table 4, following page 236.

APPENDIX C

PROFESSIONS OF MEMBERS OF BOARDS OF DIRECTORS OF 36 CENTRAL AND PROVINCIAL GOVERNMENT CORPORATIONS IN PAKISTAN, 1964

Profession	Cen. Govt. West A	Cen. Govt. East B	Total A & B C	Prov. govt. West D	Prov. govt. East E	Total cols. C,D,E F	% column F over grand total G
Government Officials							
Technical, active	3	0	3	0	4	7	
Non-tech., active	24	3	27	17	25	69	
Technical, retired	1	0	1	0	1	2	
Non-tech., retired	4	0	4	3	2	9	
Police service	2	1	3	1	2	6	
Military, active	4	0	4	1	0	5	
Military, retired	2	0	2	4	5[a]	11	
Government Corp.	4	0	4	0	1	5	
Total, Government Officials	44	4	48	26	40	114	48.3
Business	35	10	45	16	12	73	30.9
Railroad engineer	0	0	0	7	2	9	3.8
Politician	2	0	2	0	6	8	3.4
Foreign national	0	0	7	0	0	7	3.0
Engineer	0	0	0	0	6	6	2.5
Lawyer	0	0	0	1	4	5	2.1
Scientist	4	0	4	0	1	5	1.7
Academic administrator	0	1	1	0	1	2	0.8
Landholder	0	1	1	0	0	1	0.4
Woman	1	0	1	0	0	1	0.4
Scholar	0	0	0	0	1	1	0.4
Labor leader	0	0	0	1	0	1	0.4
Editor	1	0	1	0	0	1	0.4
Banker	0	1	1	0	0	1	0.4
Religious leader	0	0	0	0	1	1	0.4
Unknown	0	0	1	0	0	1	0.4
Grand Totals	87	17	112	51	74	237	100.0

[a]Military officers tabulated here are from West Pakistan although deputed to East Pakistan Provincial Corporations.

Source: Ralph Braibanti, Research on the Bureaucracy of Pakistan (Durham, N.C.: Duke University Press, 1966), Table 5 facing page 237.

APPENDIX D

FINANCIAL POSITION OF PUBLIC CORPORATIONS IN PAKISTAN, 1966

(In thousand rupees)

Corporation	Paid-up Capital	Total Govt. loans obtained upto 30th June 1966	Net profit/ loss for 1966	Dividends on investments in percentage
National Bank of Pakistan	30,000	-	26,014	7.50
Industrial Development Bank of Pakistan	30,000	57,400	13,327	6.00
Agricultural Development bank of Pakistan	100,000	-	-	-
Pakistan Industrial Credit & Investment Corporation	40,000	70,000	12,150	8.00
Pakistan Insurance Corporation	5,000	-	2,334	10.00
House Building Finance Corporation	50,000	58,000	3,812	-
Karachi Electric Supply Corporation	38,500	-	25,700[a]	10.00
National Shipping Corporation	160,000	-	-	-
Pakistan International Airlines Corporation	89,900	-	17,736	-
Pakistan Security Printing Corp.	7,500	-	23,699	-
Investment Corporation of Pakistan	50,000	-	-	-

[a]Cumulative from 1952 to 1966.

Source: Govt. of Pakistan, Ministry of Finance, Government Sponsored Corporations (Rawalpindi: 1967), pp.150-51.

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