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Mr. M. R. Masani's speech in the Lok Sabha on December 4, 1963, while moving that the Unit Trust of India Bill, 1963, be circulated for eliciting public opinion

Mr Deputy Speaker, Sir, I rise to speak in support of my amendment, namely,

"That the Bill be circulated for the purpose of eliciting opinion thereon by the 29th February, 1964."

Sir, when I saw the name of the Unit Trust of India Bill on the Order Paper a few days earlier I was delighted. I thought that my hon. friend, the Finance Minister, who is an imaginative person, was going to perform a great service to the country by bringing in legislation that would enable the formation of unit trusts in our country by giving such trusts certain facilities and, may be, some tax concessions. I was glad because, as the hon. Minister has pointed out, there are certain extremely beneficial aspects or features of a unit trust as it has been practised in Britain and America. The first is that it enables the mobilisation of the small savings of the small man which otherwise might remain unutilised productively. The second benefit, as he himself has said, is that it fosters the creation of a property-owning democracy, an ideal that really is the highest form of socialism and of social welfare in any part of the world where the great bulk of the people participate in the process of production by seeking to invest their little savings and getting their share of the national dividend in that way.

Today, if there are countries where there is social justice and social advance, they are the countries where the unit trust, among other things, has made its contribution. Finally, the unit trust, as has been said by the hon. Minister, provides even the small man with the chance of avoiding putting all his eggs in one basket and of spreading his savings thin so that no disaster may overtake him. Even a man who puts in Rs.10 does not put all the ten rupees in one enterprise; a rupee each goes to ten enterprises so that if one makes a loss he might be compensated by the gains and profits of the other nine. This diversified portfolio, which was beyond the reach of the small man with Rs.50 or Rs.100, now comes within his reach. These are tremendous advantages.

The story of the unit trust is a success story. In America the total investments go into billions. Even in Britain there are £257 million investment in these small amounts.

The essence of the Unit Trust is a voluntary coming together of small investors. The essence of it is that it is non-official and the Government has no role to play whatsoever except that of supervising the honest administration of these funds. The third and the most essential aspect of the unit trust is that it enters into free competition with other unit trusts and with other investment organisations in the country. This healthy principle of competition is what has developed unit trusts and made them what they are in these countries. It is for these reasons that I said I was delighted that we in our own country were going to facilitate such an institution coming into existence. But when I read this Bill, my hopes were dashed because I found that this Bill was something quite different -- that a very good idea was being distorted and twisted to an unfortunate purpose.

There is nothing wrong with a Corporation being put up even under the aegis of Government. I believe in the mixed economy. If a governmental unit trust wants to compete with the other unit trusts, I have not the least objection. I wish it luck. But this is not what the Bill does. The Bill does not bring into existence one official unit trust and say that everyone can come into the field. I am very glad to say that my friend Mr.V.B.Gandhi of the Congress Party has tabled an amendment, List No. 2, where he wants that similar privileges and similar facilities should be given to other Trusts, whether they may be in the State sector or the free sector. If the hon. Minister would give a categorical assurance that in the next session he will introduce such an enabling Bill as Mr. Gandhi wants, by which other unit trusts will get the same tax advantages and the same facilities, any doubts that

I may have on the subject I would be prepared to give up.

Shri T.T.Krishnamachari I am sorry I have to allow the hon. Member to continue to have his doubts.

Shri M. R. Masani. Then I am sorry I am confirmed in my suspicions about the intentions and the effect of this Bill. This Bill creates another State Capitalist monopoly. We are opposed to all monopolies, whether in the State sector or the private sector. But this Bill creates another obnoxious State capitalist monopoly. It will have very disastrous effects on the industrial future of our country. Let there be no questions as to who will dominate the Corporation. It is the Government of the day. Eight out of the ten trustees are going to be the nominees of the nominees of the Finance Minister. The Finance Minister says that the Central Government only occurs once in the clause about the dissolution. But that is not so because 8 out of the 10 institutions that will nominate the trustees are themselves the nominees of the Government. Therefore, this will be a Corporation dominated four-fifths by the Government of India and one-fifth by the spokesmen of the scheduled banks who are given a minor share.

I think it is a pity that this is so because it gives a false start to a good idea. And I say it is a pity because it is going to doom the idea to failure. I fear that this is going to be an unsuccessful effort, unsuccessful because of this bureaucratic domination of what should have been a free institution.

Contrary to my friend Mr. Morarka, my understanding is that people do not trust the Government to administer their funds because they know what a mess they have made of the administration of the State enterprises which give 0.5 per cent return on capital. If they think that the Unit Trust Corporation is going to give them half a per cent on their capital, on their money, not even a man with Rs.10 is going to sink his money into such a wasteful project. Therefore, with this unfortunate record of failure of State enterprises in our country, to ask the nominees of Government now to invest profitably the savings of the small people is to create difficulties in this investment. There are people in whom the small investor has confidence. This is shown by the fact that in public limited companies are thousands and thousands of small share-holders, some of them going to lakhs now. In America, the number of share-holders of Corporations goes into millions. If, in place of that, you put a few bureaucrats to administer your investments, then people are going to keep away from this experience. No doubt, some money will be found because of the tax exemption, because of this bribe or bait that you do not pay income-tax on these earnings. But that is not adequate because in the end it is confidence in the capacity, in the vision, in the imaginative qualities of the investors that will win. In Britain, unit trusts have succeeded because the men who run them are not only honest but are also captains of industry and finance, because they know how to make profits, they know what will make a profit -- they have got good judgment. Now, the bureaucrats who are officials in State institutions are good people; they are honest people and they will do an honest job. But they are not fitted for the role of being entrepreneurs or judging entrepreneurs.

Then, as my hon. friend Dr. Lohia quite rightly pointed out, politics will enter into this. There is no question about it. Politics will enter into it as it has entered co-operative societies, land mortgage banks and other public institutions in our country. In the United Kingdom, investments are made by the trustees on merits. Their only anxiety is to know. 'Is it a safe investment? Will it give a good profit?' But here there will be a third consideration, namely politics; and politics may take relatively desirable or relatively undesirable forms. The relatively desirable form is 'what is in the public interest.' The trustees like other Government institutions will say 'we think that the country needs more of this, and we think that the country needs less of this' As soon as this kind of arbitrary subjective factor enters into the judgement of where the money of the investor should be invested, you are not going to make the maximum profit because doctrinaire considerations will enter. This is the lesser evil.

But the bigger evil, as Dr. Lohia pointed out, is the corruption that this will bring in. Every licence and permit already is a source of corruption. Now, you will get a very big lollipop offered; if this unit trust invests in a company, it gets capital, if the unit trust does not invest in it, it does not get capital. Think, Sir, of the financial power of corruption that will be implicit in such an arrangement. Think also of the prejudice that can be exercised, because the Unit Trust of India will have prestige and its refusal to invest in a company would be considered to be a black spot on the credibility of that concern. Supposing a particular concern applies for a loan and it is refused, people will be frightened, and they will say 'The Unit Trust of India does not trust this concern; it is going down.' In other words, it will be a kind of Damocles's Sword. The granting of credit will be a favour and the denial of credit will be a punishment.

Then, judging by the light of what happens in connection with the funds of political parties during elections, which are tolerated by the Congress Party against the wishes of all the Opposition parties -- when the Companies (Amendment) Bill was before the House, every single party, except the Congress Party, wanted to ban corporate contributions to political funds, excepting the majority party which carried it through the House, and they were the greatest beneficiaries of that provision in 1962 -- in such a situation it is quite clear that the danger will be that there will be a quid pro quo, that a firm that gets money from the Unit Trust will be expected to give back a part of it to the coffers of the Congress Party. This is a danger that we cannot ignore after the scandal involving Shri K. D. Malaviya and Shri Serajuddin. These are things that are bound to happen. Some ministers may be honest; others may not be so scrupulous.

Therefore, it comes to this that to the already suffocating amount of corruption in the country we are going to create and add a new instrument of corruption.

There is also another positive danger. Funds that would have gone to productive enterprise earning 6 per cent or 8 per cent or 10 per cent or 12 per cent as in the normal course, would now be drained away from productive enterprise because of this tax concession. The bribe or the temptation to avoid paying tax will be there, saying 'Why do I give it to a private company? Why do I not give it to the Unit Trust, because I would not pay tax?' As I said earlier, there is every likelihood that the investments made by the Unit Trust will be less productive than the investments made by those who are risking their own capital. Therefore, moneys will be diverted from more productive investment to less productive investment like the State enterprises which give their half per cent of return on capital. Is that a good thing for the country? Is it going to help our economic development?

So, there are the political dangers of corruption, political patronage, political victimisation on the one hand, and the economic dangers of diverting investment from more productive to less productive quarters on the other. These are the dangers of monopoly. As I said, we are opposed to all monopoly, whether in the State sector or in the free sector.

This is an unfortunate adaptation of a very valuable device. What should have been done would have been, as Shri V.B.Gandhi has suggested, to bring forward an enabling Bill to say that from now on a unit trust may be formed by any group of people who want to form it, and they will have such and such regulation and supervision from the side of Government and they will have such and such concessions or tax rebates. And then, let the field be open. Shri Morarka gave a very pathetic rationalisation of the reason for this monopoly. He said that nobody else would be in a position to find the capital. Well, if nobody else would be in a position to find the capital, why are you frightened of it? Why bar competition if you are prepared to face it? The answer is that there are sources in this country from which rival corporations would have come. Shri Morarka's plea that money is not available is a very good reason for throwing the door open to anyone. If Shri Morarka is so confident that nobody else can put across Rs.5 crores, he should support me in saying, 'let there be an open door. Let anyone come with Rs.5 crores.' I do not believe he will. It is precisely because competition would come in, on this tax rebate basis, that a monopoly is being created. All monopolies are bad, and a State monopoly is the most vicious of the lot.

Therefore, since this measure is a distortion of a good idea, since the country has not had time to consider it -- most people do not even know what it is about, including, if I may say so, many hon. Members of the House, — it is necessary that some more thought was given to it, to study the measure in its implications, and that is why I propose that this Bill be circulated for eliciting public opinion for a period of three months.

May I say in conclusion that this is not the only or isolated example of efforts to hustle the House into passing nasty, ill-digested legislation? Bills are flung at us by the half-dozen and we are told that within a fortnight or week three of them have to go through and become law. This is not worthy of this Parliament. If there is a new measure, let it go to a Select Committee, a group of 20 Members of this House, let them study it, turn it around. There is no reason for the ruling party to worry. It will have its majority Why this indecent haste in wanting to create new institutions within one week? What is wrong if we wait till the 29th February? The heavens are not going to fall if the Unit Trust is not brought into existence for three months. Bureaucratic delays will take that much of time anyhow. It is much better that we properly digest these proposals and examine their implications, pro and con, and if after that the House is satisfied, let a Select Committee report on it. Let the Select Committee try to improve the measure and report to us. But this attempt to ram things down the throat of Parliament without giving sufficient time for discussion and assimilation is a bad practice. And our amendment is a protest against this attempt to hustle the House into passing a measure which most of us have not had time even to understand.

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