The Tata Iron and Steel Company Limited

649

Chairman's Address to the Shareholders
at the
47th *Annual General Meeting*

26TH AUGUST 1954

The Tata Iron and Steel Company Limited

Speech Delivered by the Chairman, Mr. J. R. D. Tata, at the Annual General Meeting of the Shareholders on Thursday, the 26th August, 1954.

LADIES AND GENTLEMEN,

I welcome you once again to this annual gathering.

2. Since we met last year much has happened in various fields which directly or indirectly concerns us or is likely to affect us in the future. In the sphere of international politics, the struggle for power has continued its course. Deadlocked in the West, decisive in China, temporarily inconclusive in Korea and Indo-China, it has already brought untold misery to millions of people. Its extension to East Asia and the recent military and political developments there are of particular significance to India, for in some way or another they are bound to have repercussions on our way of life.

3. India's neutral position in this great conflict has aroused both sympathy and criticism. While all may not agree with every aspect of her foreign policy, there can be no doubt that the calibre and prestige of her present leadership, her non-attachment to either power bloc, and her persevering and skilful efforts at lessening tension and easing the path of negotiation, have met with widespread recognition and appreciation.

ECONOMIC SITUATION

4. For much of the year under review, the world's economic conditions were influenced by developments in Korea and Indo-China, and by dismal predictions of a depression in the U.S. economy which was to have dire repercussions in the rest of the free world. Fortunately, the American

business recession proved to be a comparatively mild one, and it had little effect on the economic health of Europe and other parts of the world.

5. In India the general economic situation during the year can be said to have been better than in any year since the war. The success of Government's policy of food decontrol is an index of the country's all round improvement in the economic field during the year. Industrial production also recorded some advance, although the rate of progress was less than envisaged in the Five Year Plan and the private sector continued to lag behind investment targets.

ROLE OF PRIVATE SECTOR IN FIVE YEAR PLANS

6. While the country is not yet wholly out of the woods, the fact that most of the unfavourable trends, so prominent during the 1946-52 years, have either been brought to a halt or reversed is something to be thankful for and reflects credit on Government's management of the country's financial and economic affairs in the last few years. I believe, however, that progress would have been greater and quicker if the private sector had, during these years, been in a position to make the full contribution of which it was capable to such progress.

7. The major stress in the First Five Year Plan having been laid on activities such as irrigation, power generation, agriculture, transport and social services, which form part of the public sector, the Second Five Year Plan will, I expect, lay greater stress on industrialisation, with which the private sector is mainly concerned. I have not the slightest doubt that, given reasonable encouragement, or at any rate freedom from discouragement, the private sector will meet whatever targets are set for it under the Plan.

8. There are, however, some prerequisites. Members of Government and Parliament should, I respectfully suggest, cease giving the impression that the present policy of a mixed economy is a temporary

affair and a mere step in the direction of full-fledged socialism or state capitalism. The size and shape of taxation should be such that industry is able to build up internal savings to be used for modernisation and expansion. The private sector should be given a chance to tap a reasonable proportion of the country's total savings.

NEED FOR NEW APPROACH

9. More important perhaps than anything else is the need to shed certain preconceptions which have long coloured official and political thinking in our country. For instance: that the profit motive is dishonourable; that profit is synonymous with profiteering; that industrialists as a class are inefficient or dishonest or both; that about 3% net is a fair return on risk capital; that the population problem will solve itself; that mechanisation means unemployment; that it is more important to impoverish the rich than to enrich the poor; that a welfare state can be built without first creating the means to pay for it; that nationalisation creates additional wealth; that centralised State enterprise and management is socialism.

10. In this connection, I would call attention to a notable expression of views by a great socialist leader who can hardly be charged with pro-capitalist or anti-socialistic views. In the course of an article on the Bhoodan Movement published in July this year, Mr. Jayaprakash Narayan had this to say:

> "In the present world the state, not only in its totalitarian form but also in its welfare variety, is assuming larger and larger powers and responsibilities. The welfare state, in the name of welfare, threatens as much to enslave man to the state as the totalitarian. The people must cry halt to this creeping paralysis. The fact that the welfare state is a creature of the people in the sense that it is set up by

them does not affect the matter. The device of democratic elections cannot equate five hundred representatives with eighteen crores of the people, counting only the adults. To the extent the eighteen crores look after their affairs directly, to that extent the powers and functions of the state are restricted and real democracy is practised."

11. I would call attention also to the remarkable change which has taken place in the United Kingdom in the last year or so since official policies in the economic sphere have been re-oriented towards releasing and stimulating the productive energies of business and industry and freeing them from the burden of bureaucratic controls and ideological uncertainties which had benumbed them since the war.

12. I am sure that if our own Government would similarly try for a while and within reasonable limits the experiment of freeing the private sector from its present handicaps and uncertainties, and allow it the necessary incentives and scope for initiative, they would be surprised at the results. No one would seriously suggest a return to complete laissez-faire in economic matters. Besides taking active part in expanding the economy, the State has to exercise general control over the economic activities of the country, to prevent undesirable trends, to provide essential services within society's capacity to bear them, and to protect the under-privileged. I submit, however, that these objects are not served best by policies which tend to paralyse enterprise and initiative, encourage low labour productivity and concentrate economic power in Government to a self-defeating extent.

13. In this context, the resolution on industrial policy passed at the recent session of the All-India Congress Committee in Ajmer and the remarks which our Prime Minister made on that occasion foreshadow

a heartening change in approach. I sincerely hope that the lead given by the Congress in this resolution will soon be reflected in the economic policies of the Government of India. I am sure they will not find the private sector wanting in its response.

14. Apart from the serious population aspects to which I have referred in previous speeches, India's economic problem is fundamentally one of production. The great power and irrigation schemes in the public sector and the steps taken by the Central and State Governments to encourage production in the fields of agriculture and cottage industries, are all to the good and are beginning to bear fruit. But the contribution which private sector could make to the expansion of India's economy, if given a fair chance to do so, is potentially as great. This, however, will require the creation and maintenance of an atmosphere in which the investor, his faith restored, is willing to risk his money; men of ability and vision, freed from uncertainties and inhibitions and from their present sense of frustration, are able to apply their energies and resources to constructive purposes, and labour, properly led and fortified by the recognition of its status and legitimate interests, contributes a full day's disciplined work to the common task.

15. At the same time those of us, however, who within the private sector bear the responsibility of industrial and financial management, should be clear about one thing. The adoption of a new outlook by Government towards the private sector, the confidence of the investor and the cooperation of labour require that in the discharge of our responsibilities we show ourselves worthy of the trust placed in us. There is no place, in this great adventure on which our country has embarked, for the selfish and unworthy motives and the dishonest practices which have in some instances in the past tarnished the name of free enterprise.

16. A high light of the past year of special concern to us was the sudden burst of interest in the problem of mechanisation in industry in relation to employment. With one or two welcome exceptions, including wise and constructive remarks by the Finance Minister and the Minister for Commerce & Industry, much of what was said in the course of a somewhat heated controversy between representatives of labour, Government, Parliament and employers disclosed a tragic misunderstanding of the real facts of the problem. This is so important a subject and one so pregnant with consequences to the future growth of our country that I feel I must devote a major part of my speech to it.

RATIONALISATION

17. The debate on the relationship between man and machine is not a new one. It goes back to the days, centuries ago, when men who made discoveries or inventions were burnt or stoned as sorcerers. It became acute in the nineteenth century when machines were destroyed and factories burnt in Britain and elsewhere in an attempt to arrest the progress of mechanisation. Even the sewing machine, mother's good friend, of which Mahatma Gandhi spoke with affection, was smashed by enraged tailors in France when first introduced.

18. This age-old antagonism towards the machine is rooted in the belief that the mechanisation of industrial processes automatically leads to unemployment. The machine has in fact proved itself to be the greatest creator of jobs that ever existed.

19. In Britain, within a generation after textile workers had smashed spindles and power looms, ten times as many men were engaged in the textile industry as before these inventions.

20. In the U.S.A., where mechanisation has gone further than in any other country, gainful employment increased from eighteen million to over sixty million in

the last sixty years. Between 1939 and 1953 alone, employment in manufacturing industries increased by 75%, notwithstanding the fact that it was in these very industries that mechanisation made the most spectacular advance.

21. A million jobs in the horse and carriage business have been replaced by six and a half million jobs in making, selling and servicing automobiles. When the motor car was first developed and for some years thereafter, it was an expensive vehicle, largely built by hand and afforded by the wealthy few, and the industry had little impact on total employment. When however the automobile industry adopted intensive mechanisation under the pioneering leadership of Henry Ford, a revolutionary change took place. The new machines and methods made it possible to produce cars so quickly and cheaply that they were bought by millions of people instead of the few thousands who could afford them before. While hundreds of thousands found jobs in actually making cars, millions more found jobs in making, selling and repairing the thousand and one things needed to keep motorcars and trucks going, and in providing services to the people using them. The industries providing machines, power, fuel, oil, metals, rubber, road building equipment, transport, etc., expanded mightily, and each in turn employed more and more people. Thus, while fewer men were employed for building each car, total employment grew by leaps and bounds.

22. Surely, we do not have to go abroad for proof of the proposition that machines create employment. Can anyone question the fact that the few modern industries established in our country in the last century have created directly and indirectly hundreds of thousands of jobs that just did not exist and could not exist otherwise?

23. It is unfortunately often assumed that if the men at work today were allowed to continue to operate

antiquated machines and processes, their employment would be secure. A notable refutation of this tendency to mistake stagnation for stability came recently from the Minister for Labour of Uttar Pradesh, who pointed out that during the last four years between ten and fifteen thousand workers in the leading textile centre of Kanpur had been retrenched, not because there had been rationalisation but precisely because there had been no rationalisation.

24. India, with its alarming increase in population can afford even less to be static in its approach to this problem than other countries. Millions of additional jobs have to be found in a hurry in industry and services to relieve the mounting pressure on the land. To attempt to do so with obsolete machinery and methods is to court disaster, for inefficient industries cannot survive for long.

25. The inadequate use of power tools, or the use of antiquated ones, perpetuates low productivity; low productivity leads to high costs and low wages; low wages keep down purchasing power and demand, and low demand enforces low production. This vicious circle is the main cause of the poverty of industrially backward countries such as ours. The only way to break through it and to achieve a higher standard of living for all is, through the use of modern equipment and methods, to produce more and more goods more and more cheaply, and to pay those who produce them higher and higher wages.

26. In this connection, I should like to quote from the excellent report on small industries in India by the International Planning Team of the Ford Foundation. This is what the team says on the subject:—

> "Without rationalisation, the natural talents of Indian workers and craftsmen are being wasted in a hopeless race against modern technology. Unless and until these

> workers are helped to produce more goods and more wealth, neither wages nor living standards can be raised. 'You cannot divide what you do not first produce'.
>
> To prevent rationalisation, to stop the processes of modernisation, is not only illogical, it will force stagnation and retrogression of Indian small Industry.
>
> ....Perpetuation of inefficient outdated methods has more drastically reduced employment than any modernization could have done—and without opening prospects for the future.
>
> Modernization on the other hand creates employment. Improvements mean more and better products at lower and lower cost price, and result in greatly expanded demands and markets, and thus expanded job opportunities. Reluctance or failure to appreciate this concept is not only responsible for many of the difficulties observed, but are real obstacles in the way of any organic effort toward improvement."
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> "Without modernization Indian industries which cling to obsolete equipment are condemned to mediocrity and eventual elimination. Only by adopting efficient methods of production, as soon and as widely as possible, can small and village industry take advantage of the opportunity it now has to lay a basis for a promising long term development."

27. All that I have said so far does not mean that I am unaware of the difficulties and hardships which hasty mechanisation may cause in India if introduced without proper care and thought in each case. Fortunately the problem here is likely to be a temporary

and relatively minor one, for the following reasons. Resources available for the purpose are limited and must therefore be spread over a period of years. Large schemes of mechanisation take years to put into effect. The normal process of retirement for reasons of old age, death and other causes, will help by providing vacancies which merely need not be filled. Finally, the many schemes of economic expansion under the Five Year Plans will provide ample opportunities to absorb the few who may be rendered surplus. For these reasons, and by careful planning and preparation, resort to actual retrenchment can be avoided or limited to rare occasions.

28. Managements desirous of putting through measures of mechanisation and modernisation have a number of obligations to fulfil. They must first ensure that they are themselves efficient and economical; they must make every effort to absorb as many redundant men as possible in other jobs; they must help the State, wherever possible, in the re-training of those rendered surplus who cannot immediately find alternative jobs in their existing trades; they must be ready to pay generous compensation to those few whom it may not be possible to retain in employment; finally, they must show an unequivocal readiness to share with the smaller number of employees that remain and with the consumer the benefits of cheaper production.

29. The real problem—largely a psychological one—is to secure acceptance of the change by labour. In the United States, trade unions not only accept as necessary a continuous process of technological improvements in industry but often actually encourage it and share responsibility in carrying it out. Union executives there have fully realised the fact that the best job security to their members lies in sound cost reducing programmes.

30. In appealing to labour leadership in India to consider this problem objectively and scientifically, and, wherever possible, in friendly cooperation with management, I would ask them to keep in mind three important considerations: first, that throughout the world the machine has brought human beings miraculous relief from the toil, sweat and drudgery which they have endured for thousands of years: second, that it has brought about a phenomenal rise in wages which have remained low only where the machine is used insufficiently or not at all: third, that, in conjunction with modern methods and processes, it has made possible an enormous increase in production at much reduced cost, the benefits of which have gone to the whole community. Thus, opponents of modernisation in industry should realise that the acceptance of their views would not only deprive the very workers whose interests they seek to promote of the chance to cast off their age-old back-breaking burden and to earn progressively higher wages, but would also deprive the entire population of the immense benefits of increased production and lower prices.

31. In closing my remarks on this vital subject, I would urge all those concerned to face the fact that the choice before us is not between modern industry and old fashioned industry, but between modern industry and no industry at all. There is no half way house. Either we shall build a highly productive and happy society in which workers have, thanks to the machine, regained their dignity, or we shall sink back into a primitive form of society, condemned by the inexorable increase in our population to growing poverty and despair.

GOVERNMENT STEEL WORKS

32. Since we last met, a development of great significance has taken place in the steel industry. The Government of India have decided to build a steel plant of an approximate capacity of half a million ingot tons and have entered into an agreement with two German firms of equipment manufacturers for the construction of the plant.

33. This decision is to be welcomed in so far as it constitutes a major step in the development of the Indian steel industry. As shareholders are aware, there has been a continuous shortage of pig iron and steel in India since the war. The expansion of our own works and of those of the Indian Iron and Steel Company, together with the creation of the new Government owned capacity, will materially reduce this shortage and will greatly assist the development of Indian industry as a whole.

34. The project, however, gives rise to some doubts on other grounds. No useful purpose would be served in my detailing these here as Government have already approved the project and are acting on it; but I feel I must mention one distressing aspect of the scheme. Although the creation of a large new steel plant is obviously of great importance to the industry, Government have throughout the formative stage of the project acted as if they were totally unaware of the existence of a steel industry in the country. They did not think it worthwhile to hold consultations with the industry or to seek its views, let alone its assistance. Faced with this extraordinary situation, we thought it our duty, drawing on our fortyfive years' experience of the steel industry, to invite Government's attention to what seemed to us some unsatisfactory aspects of the project. We can have no complaint if the views we expressed were not found acceptable to Government, but I was sorry to find that our action was unwelcome.

35. Government have, on many previous occasions, gone out of their way to assure industry of their desire to consult with them on economic and industrial policies. The attitude of the Ministry of Production, in this instance, must arouse doubts in one's mind as to the value of such assurances. This incident also illustrates Government's mistrust of private enterprise. I should have thought that those who over a half

century, have served the country and responded ever-willingly to any call for cooperation deserved some measure of confidence in their capacity for rendering disinterested advice. It seems, however, that advice of any kind is not wanted these days and that it is improper to express views at variance with those of Government, even in economic matters.

DEFERRED CONVERSION SCHEME

36. This is the first time we are meeting after the conversion of the deferred shares into ordinary shares, and I wish to express the directors' and my personal pleasure on the consummation, at last, of this long overdue scheme. The enormous majority by which the scheme was carried through was particularly gratifying.

37. I should like to thank all the equity shareholders, and particularly those holders of deferred shares who held genuine doubts all these years, for their cooperation and their willingness to place the interests of the Company and the general body of shareholders ahead of their own views or wishes.

38. One result of the implementation of the deferred conversion scheme which has already become apparent is that the Company's equity share has become a prime investment scrip. Not only has this made for stability, but it has also increased the market value of the share. I think you will agree with me that if the conversion scheme had not been put through, the market value of the Company's equity as represented by the deferred and ordinary shares would be lower than it is today.

ACCOUNTS

39. Coming to the operating results for the year under review, there is little for me to add to the full information contained in the report and in the financial and statistical data annexed to it.

40. An important measure has been initiated this year in providing in advance for the substantial increases in taxation which will arise in future years

after the heavy depreciation allowances on the new plant additions have been worked off.

41. A point of interest in the year's accounts is that, for the first time in over thirty years, capital expenditure has substantially exceeded the year's provision for depreciation even after taking into account the separate allocation to plant rehabilitation reserve.

42. The financial statistics included on page 21 of the report bring out clearly the policy consistently followed by your directors of ploughing back into the physical assets of the Company every rupee set aside over the years. It is the steadfast pursuit of this policy, through good years and bad, which has enabled the Company to maintain its earning power unimpaired.

43. While we may derive some satisfaction from this aspect of our financial record, we can hardly do so from the production statistics on page 20 which show only too clearly the extent to which the Company has stagnated during the last fifteen years in the matter of production. Although it was impossible to expand capacity during the war years, we had a great opportunity of doing so after the war. Particularly in a backward country with an ever-growing population like ours, it is the duty of industry to keep pace with the growing demand. Although we have failed in that duty, it would be unfair to blame the Company for not having risen to the occasion. The prime responsibility must rest with the policy, initiated by the Tariff Commission and adopted by Government, of restricting steel prices during these years to less than half the import prices and to a level calculated to yield a net return of only $3\frac{1}{3}\%$ on new capital expenditure. We have throughout protested against this policy which in the long run has cost far more than it has saved. By making it impossible to raise fresh capital for expansion, it has compelled the country to import large quantities of steel

each year at very high prices. A moderate increase in Indian retention prices, while still leaving the cost of steel at a much lower level than that of imported steel or other commodities in relation to pre-war levels, would have enabled the industry, from internal savings and from fresh capital, to increase production and so to save the country many crores annually.

FUTURE PROSPECTS

44. Before closing, let me say a few words about the near future as I see it, in the light of the modernisation and expansion programme now under way. In regard to plant operations, the current year will, I hope, be the last one in which production will be materially affected by interruptions due to major modifications to the plant. Thereafter, everything going well, output should rise steadily during each of the subsequent three or four years. Our finished steel output will then be higher by about 150,000 tons, or 20% more than in the current year.

45. As regards finance, barring, unforeseen circumstances, our debt position should then be very much the same as it is today with the important addition of the Rs. 10 crore advance from the Government of India. I hope that Government will make it possible for us, under the terms of the advance, to liquidate it in a reasonably short time.

46. As regards profits, a number of factors must be taken into account. While we shall make a profit on about 150,000 tons more than today, the rate of such profit per ton will depend on the level of costs and prices at the time. Provided labour plays its part, we may, I think, expect that the heavier burden of depreciation will be largely off-set by the fall in costs resulting from the increased efficiency and output of the plant. If so, our profit will be determined mainly by the then prevailing level of steel prices which itself will depend on whether Indian prices are still

controlled as they are today. If control is terminated, sales realisations must then depend largely on what world prices on the one hand and Government's import and fiscal policies on the other will be at the time. While I cannot venture a forecast on these two factors, it would seem reasonable to assume that Government would not at any time permit unrestricted imports to compete unfairly with Indian steel.

47. One thing of which we may be certain is that, even after the completion of the Government Steel Works and of the additions to the capacity of the existing plants, there will be no over-production in the country. In fact, under the series of Five Year Plans visualised by the Planning Commission and Government, I see little prospect of capacity catching up with the country's demand for the next fifteen years or more.

48. The conclusion to be drawn from all this is that our future prospects will depend mainly on the extent to which we keep our plant up-to-date, our operations efficient and our costs low. Provided artificial obstacles are not put in our way and labour costs do not get out of hand, there is no reason why we should not maintain our competitive power and earning capacity.

Mr. K. M. MADAN

49. Finally, in expressing as usual on your and our behalf, our thanks and appreciation to the management and all the employees of the Company for the good work they have done during the year, I am sure you will wish me to pay a special tribute to one whose presence we miss here today. Mr. K. M. Madan, our Deputy Agent at the Head Office, passed away on the 9th October last, after more than thirty eight years of able and devoted service. He was a good friend of the shareholders, and many of them will remember, with kindly feelings and deep regret at his passing, the courtesy and assistance that he so willingly extended to them.