CHAPTER II

PUBLIC ENTERPRISES IN ECONOMIC DEVELOPMENT
Introduction

The philosophy of laissez faire propounded by the classical economists, which dominated the economic and political scene of the world during the 17th and 18th centuries, started giving way to State regulation and control in the 19th century. With the passage of time, it was recognised that mere regulation and control is not enough and to effectively execute its policies, the State must directly participate in business. The recent years have been particularly marked by an increasing intervention by State in the economic field. In the words
of S.S. Khera, "The nineteenth century concept that the interests of society are best served by the state interfering as little as possible with the life of the people, has lost its meaning and, with it, has lost support".\(^1\) He further states, "... the State today, far from being merely a passive observer of the economic process, which once it was, has emerged as an active participant taking upon itself the role of protector, of controller, of guardian, of the citizen and of entrepreneur".\(^2\)

The most important factor leading to an expansion of State intervention in economic affairs was the social evil which accompanied the industrial revolution. The era of industrial revolution saw the inhumanity of man to man and a brutalisation of human nature in those very societies where the greatest advances were being made in the field of science, technology and organisation. In the United States, the miracles of industrial revolution co-existed with the inequities of the slave system which were put to end by the American Civil War in 1861. Similarly, in

2. Ibid.
Europe, there was a separation of the man from his craft and from his family. Man became just an attendant upon a machine erected with the sole objective of earning money for its owner.

In addition to the social evils which the industrial revolution brought in its train, it created private capitalism. Private capitalism developed a number of undesirable characteristics which damaged man, his security, his welfare, even his whole future. It disrupted the age-old system of independent, self-supporting families carrying on their life's activities within and around the village community. The old family ties and old fraternities yielded place to the barren realities of the economies of industrial revolution. The old system was destroyed without adequate thought of what would take its place and perform its function. The result was the operation of the inexorable laws of laissez faire which led to side by side existence of distress and luxury, starvation and plenty, riches and nakedness. These conditions gave birth to State intervention as a matter of historical necessity. The early attempts of State intervention in
in economic affairs took the form of formulation of factory laws.

The First World War necessitated a further increase in State intervention. For mobilising maximum resources for war, it was essential for the State to control and regulate the apparatus of production. Towards the end of the First World War i.e., in 1917, there came the Russian Revolution. It led to the wholesale management by State of the overall economic life of the people. During the great depression of thirties, Keynes emphasised the role of State in various spheres of the economy to get rid of the vicious underdevelopment equilibrium. The classical economists followed the principle of laissez faire and thereby ruled out the necessity of State intervention in the economic doctrine qualified in important ways the infallible role of the "invisible hand". The root of the modern welfare State can be traced back to the writings of Adam Smith and J.S. Mill. Recent socio-economic developments in underdeveloped countries increasingly justify and necessitate the economic role of State. In the underdeveloped countries, vicious circle of poverty
and the associated circular constellation of forces keep the country confined to a situation of "under-development equilibrium". To get out of this low level stagnation trap, the State has to come in forefront of all actions, and as the custodian of social welfare, has to initiate a virtuous process of economic development.

State enterprise has become a world-wide phenomenon irrespective of their level of development and the political system. Even in a country like United States, where the State enterprise is looked upon with an eye of suspicion and considered a threat to individual liberties, there is an outstanding example of State enterprises, i.e., Tennesse Valley Authority. In socialist countries like the USSR, State enterprise dominates the whole economy. The USSR Constitution states, "the economic foundation of the USSR is the socialist system of economy and the socialist ownership of the instruments and means of production, firmly established as a result of the liquidation of the capitalist system of economy, the abolition of private ownership or the instruments and means of production

and the elimination of the exploitation of man by man".  

Nearly all poor countries of the world are now striving, with varying degrees of determination and diligence, to develop economically. By the term poor countries, we generally mean countries with the low levels of income and capital per head of population. The poor countries of the world are also known as underdeveloped or developing countries. An underdeveloped country has been defined as a country which has good potential for economic development and enthusiasm of its people for using more capital or more labour or more available natural resources, or all of them combined, to achieve a higher standard of living for its people.  

In developing countries, it is the public enterprise which has to lay the basis upon which the structure of a dynamic and diversified economy is to arise. In the words

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6. Ibid.
of Hanson, "whatever the country is anxious to develop economically has no alternative but to use public enterprises on a considerable scale, at least in order to get things going". 7 Hanson further stated that, "public enterprises without a plan can achieve something, but a plan without public enterprises is likely to remain on paper". 8

Most of the countries have introduced planning for achieving different objectives. Mere regulation of economy may not be enough for successful implementation of a plan but an active participation of the State in the establishment and management of the undertakings may be required. Private enterprise leads to vast inequalities in the distribution of wealth and is unfit for social development of the economy. It also creates poverty and artificial scarcity of goods and services with unemployed workers and unused plant capacity. Producers complain of glut and surpluses, while consumers are underfed, underclothed and undersheltered. There are limits to which inequalities in the distribution of income and wealth can be reduced by fiscal measures because, if they are carried

8. Ibid.
beyond the limits, they tend to impair incentives to enterprise, to work, save and invest. Therefore, public enterprises will remove all these ills of the country.

Public enterprise in commerce and industry is an important instrument of attaining the objectives of social and economic justice like labour welfare. They may prove a model for private sector by introducing concepts like "workers' participation in industry".

The functions of the government which were originally limited to the maintenance of law and order have considerably expanded in recent years. The Indian Constitution, particularly in the directive principles of State policy, for instance, holds that the State is responsible for the total socio-economic welfare of the people. To discharge its increasing responsibilities, the State requires expanding resources. The taxation alone cannot provide resources on the required scale. "By active participation in business, the State has sought to tap the gold mines of industry and commerce for the funds needed to discharge the new and heavier burdens it now shoulders".  

The State in the ultimate analysis represents general will, collective urge and people's hopes and aspirations. Further, it has the sovereign power and administrative machinery to effectuate development. Viewed as a whole, economic development can be construed as a grand single State enterprise.

**Meaning and Function of Public Enterprises in Relation to Economic Development**

The term public enterprise may refer to all governmental activities. Since each and every activity of a government has some direct or remote bearing on development, it is justified to examine and analyse government activities under the caption public enterprise. In a popular sense, public enterprise is viewed in a restricted sense "to mean State ownership and operation of industrial, agricultural, financial and commercial undertaking". Such public enterprises are closely analogous to private enterprises. They broadly discharge two types of functions. Firstly, the general functions of the government are partly expressed and fulfilled through these enterprises. Secondly, they perform a variety of functions peculiar to themselves.

In the context of development, such enterprises play a crucial role in furthering the cause of development. Public enterprises in both the senses have to be examined to assess their bearing on economic development. They are:

1. **To Accelerate the Rate of Economic Development**

   Public enterprise is an integral part of industrial development. But, it should be noted here that there is a rational relationship between the rate of economic development and the choice of public sector only when the rate proposed under the development plans is higher than what is possible under free and unplanned play of economic forces. If the rate proposed in the former is smaller than that proposed in the latter, then the case for public enterprise may rest on other grounds but not the accelerating economic growth. As a result, the rate of economic development of public sector should be higher than the private sector.

2. **To Increase the Level of Investment**

   Development is a function of investment and investment is ultimately a function of saved national income. If public enterprise leads to capital formation which is
no smaller than under private enterprise, the targeted rate of development is possible. Where the profits from public enterprise are low, its relationship with development is of normal. It is, thus, obvious that public enterprises are sine qua non of capital formation and rapid economic development.

3. To Mobilise Resources for Plans

Public enterprises can constitute an institutional medium of raising resources for the plans. This can be possible in two ways:

(a) The profits normally earned by the producers are diverted to public exchequer. Then the cost of raising capital for public enterprises is lower than the market rates of interest on whose basis profit is earned in private enterprise. Besides, public enterprises receive other facilities, such as cheap power, cheap raw material etc., from the government. So, the public enterprises should earn larger profits than the private enterprises. And these profits should be mobilised for financing of the plan for further development.
(b) Secondly, prices may be employed as a weapon in lieu of taxation and high revenue earned for the public exchequer; in other words, high profits may be planned deliberately. The underlying provision in the first case is that the public enterprise compares well with the displaced private enterprise in profit efficiency. In the second case, the provision is two-fold, the government must be able to practice a high price policy; and there ought to be an administrative device for ensuring price manipulation.

4. To Redistribute Income and Wealth

The reduction of inequalities in income and wealth and a more even distribution of economic power are among the principle objectives of the Indian Planning. These can be achieved, not by any single measure of central direction, but by promoting a variety of changes in different fields. Public enterprise is one of these. Public enterprise helps in reducing inequalities in the following ways:
(a) The profits of public enterprises go to the government and do not go to enrich any private pocket. So, profits earned by industries may not concentrate in few hands.

(b) There can be effective regulation of income of senior employees of public enterprises; and several of the devices adopted by private enterprise to add their real incomes other than by salary can be eliminated in public enterprises.

(c) The pricing policies can be employed for the benefit of poor classes. Low prices can be charged for consumers falling in the low-income groups; and there can be discrimination against the rich consumers.

(d) Public enterprises make it possible for wage incomes to rise relatively to other incomes. It is one of the most certain results of public enterprises that incomes of the low-paid participants improve; to this extent the objective of raising the low level of income is achieved.
5. To Create External Economies

In the early stage of economic development, the marginal efficiency of capital may fall to zero due to large discontinuities and absence of external economies. Under such a situation private investor can not be expected to step in. The State enterprise here may facilitate capital formation by creating a wide range of external economies through investment in infrastructure, like roads, electricity, transportation and communications, etc. The State action not only helps a sustained growth of capital formation in the public enterprise but it also ensures at the same time an induced investment and capital formation by the private enterprise.\textsuperscript{12}

6. To Provide Public Services

Maintenance of law and order, schools, public health, defence, environmental control and many such things which are called collective\textsuperscript{13} and quasi-collective goods provide preconditions to economic growth. In a welfare State, the public utilities, e.g., transportation, communication, fuel, etc., must be supplied to the

citizens at a reasonably cheap cost. It is generally said that the supply of such services should be on a cost assuming 'no-profit no-loss'. But the private enterprises will not come to operate in this field because of two reasons: (i) the supply of such services require a heavy initial capital investment and (ii) as the price would be low, profit cannot be maximised. Hence, the public enterprise must operate in this field of public utility services. Unless this is done, the inspiration for creeping socialism will die and the common people will have to undergo hardship.

7. Promotion of Research, Adoption and Adaptation of Technology and Accumulation of Knowledge

Economic growth greatly depends upon acquisition and application of knowledge. Since in the developed world, knowledge and technology exist, they need to be transferred wherever they are necessary. Besides, it is necessary to collect basic information about land and people and formulate new hypotheses and theories for particular countries. The State must take the lead in these respects by way of establishing research organisations and encouraging private initiatives.
8. Removal of Regional Disparities

The wide disparities in the economic development of different regions in the country attracted the attention of the Planning Commission when the Second Plan Draft was finalised and the removal of regional disparities was included in the plan objectives. The National Development Council accepted in principle the need for balanced development in different parts of the country as well as for "a balanced economy for different parts of the country". 14

The Planning Commission in the Third Five Year Plan, has also stated that balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusion of industries are among the major aims of planned development. Thus, regional development, appears to be a basic plank of government's policy. If this is granted, public enterprises can assist in such regional development from two angles:

(a) By directly setting important commercial enterprises in regions where the local resources are too scanty; and

(b) By indirectly assisting private enterprise in setting important projects.

9. **To Achieve Socio-economic Objectives**

It cannot be denied that the public undertakings in India have served as powerful instruments for achieving social and economic objectives. Serious gaps in the economy, particularly in the field of heavy industries, such as manufacture of steel, heavy machine tools, heavy electrical equipment, exploration and refining of oil, manufacture of heavy chemicals and fertilizers and the indigenous production of defence equipment have been overcome through public enterprise. An important economic objective of State enterprise in India, which has come to be increasingly recognised in recent years, is the creation of surpluses required for the execution of development plans. This objective is important in view of the limits to the raising of taxes and floating of loans for

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developmental purposes. Serious production gaps in some basic commodities and capital goods may be bridged by the public sector.

10. To Establish Economic Institutions

It is generally felt that the existing institutions in the underdeveloped countries are more of a hindrance than help to desired change. It is, therefore, imperative that the government should create a new legal frame work. Credit agencies, co-operative departments, trade unions, new property relations are to be created or modified or redefined to suit a new order.

11. Stability and Employment

Keeping monetary unit relatively stable in value through fiscal, monetary and administrative policies is a very important collective service rendered by government. By steering a safe course between depressionary and inflationary tendencies, State fosters growth and ensures its continuance.

12. To Influence Attitudes

There are attitudes and values of life such as
extravagance, idleness, resistance to adopt new methods which are antagonistic to growth. There are again, values that are favourable to growth. Government through its machinery influences and mould attitudes to work, thrift, size of the family, inequality of incomes, etc., to facilitate the process of development greatly.

13. To Influence Resource Use

Market forces quite often lead to gross mis-allocation and wasteful use of resources. Soil, water, forests, minerals and land surface are generally overused or used in a way detrimental to the interest of a developing society. Both manpower resource and material resources need to be used in a planned way for development. The responsibility of the government in this regard is great.

14. The Spirit of Competition

Satisfactory performance and efficiency of the public enterprise notably help economic expansion directly, but immediately they can also help economic expansion by generating a spirit of competition in the economy. The private sector may be favourably influenced
by the competitive spirit and may contribute more in raising their standard of performance equally. Such a competitive spirit is specially helpful where the same types of industries are being operated in both these sectors. But if the efficiency of the public enterprise is lower, the competitive spirit is dampened. In that case the State may follow more rigorous policies in order to raise its efficiency. And thus, competitive spirit may be helpful for both the parties in the process of economic growth.\footnote{16}

**Conclusion**

The State enterprise has become a world-wide phenomenon in the twentieth century. State enterprise has come into existence in all countries, whether capitalistic or socialistic, developed or underdeveloped. The growth of State enterprise is due to a variety of motives, pressures and purposes which differ from country to country, and from government to government. The factors which in one or the other way determine the extent of State enterprise include the practical needs of a nation, defence consideration,

\footnote{16. Hanson, A.H., *op.cit.*}
political ideology, social philosophy and the stage of economic development.

The need for public enterprises arises from the fact that they should act as the basic substitutes for the private enterprises to develop the economy, to provide economic welfare for the people, to increase production in social needs industries, to maximise resource utilisation, to make an equitable distribution of social product, to have efficient production, to eliminate the concentration of wealth in the hands of a few, to mobilise resources, to establish an economic justice, to provide more employment opportunities to the people, etc.