CHAPTER I
CHAPTER I

ECONOMIC RATIONALE OF PUBLIC ENTERPRISE

Public ownership, which covers all Government agencies engaged in providing goods and services, is a fairly old concept. However, its actual development came into being as a result of Industrial Revolution and the doctrine of laissez-faire. In laissez-faire, only a few capitalists controlled the whole economy, leaving a major portion of the population as the labour class with the small share of the national income. The capitalists used to exploit the working class by paying the minimum wages, which were just sufficient to enable the labourers to live while the whole surplus value of the product was appropriated by themselves in the form of profits. Naturally, therefore, it resulted into an unequal distribution of the wealth which, in its turn, brought about great hardships to the working class; besides causing instability in the economy. It was not surprising, therefore, that this unsatisfactory state of affairs was the cause of public ownership of production, distribution and consumption. Socialism was the answer to the capitalist's attitude as public enterprise is considered the property of all the people of the country. The idea of socialism came slowly and the notable development emerged since the period of Fabian Essayists. They
They realised that public ownership of economic institutions was necessary, because, if it was left to the private enterprise, the economy would deteriorate. The private entrepreneurs normally abstained from entering the area strategic to the economic development of the country due to the low profit margin there. While the basic and key industries, upon which the efficiency of other industries depend, are developed by the public sector. The economic planning, which has been adopted in many countries for rapid and rational economic growth, was difficult without the cooperation of public ownership. The planning cannot be successfully implemented without controlling certain key industries by the Government.

As far as the Indian economy is concerned, the charter of public sector was embodied in the Industrial Policy Resolution of April 1948. The role assigned to the State in the Resolution was significant for bringing a rapid economic development by expanding its activities. The rationale of public enterprise in India can be identified with the rationale of economic planning. In the fundamental terms, the aim of all economic planning is to bring about ordered economic development in the different sectors of the national economy. The State can make a deliberate and conscious effort towards economic development by entering the field of economic activities and can bring about the needed development in critical areas. Also, the public industries are
used as the source of finance for the plan outlay. Further, public institutions are the medium through which the concept of welfare economy is realized practically. They help in providing job opportunities for the unemployed mass of the country. There are, however, many reasons for the emergence of public ownership, which are discussed in detail in this chapter. This chapter has been divided into two sections. Section I reveals the economic philosophy of public ownership in general, while Section II deals with the public ownership with special reference to India.

**SECTION - I**

**Causes of the Evolution of Public Ownership**

The early philosophers were of the view that all Governments had their own evils, though there were certain areas, in which the role of State was inevitable. Adam Smith described the three important functions of the Government. First, the duty of protecting the society from the violence and invasion of other independent societies. Secondly, the duty of protecting, as far as possible, every member of the society from injustice or oppression from its other members and establishing an exact administration of justice, and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or
small number of individuals, to erect and maintain. Hence, the role of the Government was not passive but its interference was confined to certain areas. It was in the succeeding years that many of the developing and advanced countries adopted the public ownership on a large scale. The factors such as exploitation of the workers, monopoly position of the capitalist, misdirection of resources and the lack of public welfare etc., responsible for placing the public sector on a high position are discussed in the following paragraphs.

1. Exploitation of the Workers: The workers, which constituted the major portion of the population, were exploited in the capitalist system and they could not get their due share in the national economy. Almost all the property was owned and controlled by a small number of private entrepreneurs, leaving a major portion of the population as the labour class having a small share of income. The few capitalists were dominating the whole population. Prof. Bowley in 1910 made a study about the ownership of property. "That just 1 per cent of the population took 30 per cent and 5 1/2 per cent took 44 per cent of the national income leaving 70 per cent of income to 99 per cent of the population and 56 per cent of the income to 94 1/2 per cent of the population.".

The attack on such a capitalist system was, for the first time, made by the Fabian Essayists, who felt its defects. As stated by Bernard Shaw the theory of capitalist system "is to make the material sources of production private property, enforce all voluntary contracts made under this condition, keep the peace between citizen and citizen and leave the rest to the operation of individual self interest. This, it was claimed, would guarantee to every worker a subsistence wage while providing a rich leisured class with the means of upholding culture, and saturating them with money enough to enable them to save and invest capital without personal privation."

In the capitalist economy, the theory worked properly in the field of production and trade but economic power was accompanied by a failure in distribution which was so inequitable and socially disastrous that it led to unhappiness to the society. In other words, all the capital of the economy was concentrated in few hands which, in turn, created unnecessary poverty, injustice and practically ruined the entire economy. Attempts were being made everywhere by redistributive taxation, State regulation of wages and factory legislation to remedy within the limits of the capitalist system. But redistributive taxation within the capitalist limits meant granting of dole for idleness instead of wages for productive work, while the regulation of wages and factories did not help the unemployed mass. Hence,

in a capitalist framework, there was no way out to provide the society equal opportunities and its continuance was out of question. Consequently, there was no remedy other than the transformation of capitalist society into a socialist one which meant the expropriation of private property.  

2. Monopoly Arguments: The laissez-faire economy in the capitalist economy 'where everything gets adjusted through price mechanism', ceased to function properly. Perfect competition was nowhere in the economic set up and monopoly of the productive power dominated the economy. This wide-spread monopolistic nature exploited the consumers. The handful of sellers controlled the best part of the supply. They decided the prices in favour of their vested interest to increase the profit margins.  

It may be argued that the nature of the early capitalist system has now changed. The individual industrialists have been gradually outclassed by the partnership and the Joint Stock Companies, which means the diffusion of economic powers through shareholding. But even this process has created the concentration of wealth in the hands of a few persons and has given birth to the monopolies in the major productive fields. Hence, the public ownership of the major industrial institutions was one of the means to check the concentration of economic powers and to avoid the

dreadful functions of monopoly. The State, therefore, was forced to undertake directly the productive institutions. It did so "because the process of concentration reached already its logical end, and a clear-cut private monopoly had been created in the form of an omnipotent single firm".

3. Economic Instability: The third argument for the public ownership was economic stability, required for the steady economic development of the country and which was not feasible in the capitalist system. The inequality of distribution created the gap between demand and supply. The capitalist class was not willing to purchase the products of the nation due to their over consumption, at the same time, the poor class was unable to purchase because of the lack of purchasing power. It was not surprising, therefore, that this was the cause of slumps which prevented economic system from functioning properly. The great depression of thirties made the State realize its duties towards the national economic and social well-being of the masses. Hence, socialization of property or transfer to the public ownership of all means of production which were hitherto in the hands of few capitalists was suggested. The object of doing this task was that the mass of the people who were wage-earners would get the entire product of their labour. This was the economic reason why the State was forced directly to participate in the process of

production to avoid the fearful consequences of inflation or slump. Moreover, it was evident that if the things were left to themselves, the economy would have shown an increasingly disastrous tendency towards instability. The State now is understood to be concerned itself with maintaining the total demand in terms of money for the whole national products at the right figure so as to avoid the tendency of prices to persistently rise and fall.

4. Misdirection of Resources: The private ownership of property created the inequality of wealth which led to misdirection of production. It directed energy from useful production to the multiplication of luxuries. A large part of the goods which was called wealth was not meant for meeting the essential requirements of the society because it consisted of the articles which should have been produced only after other essential articles were produced in abundance. It was because of the fact that the surplus with the capitalist was not necessarily used into productive articles. It was the vested interest of the private entrepreneurs that the resources were invested where they got maximum profits irrespective of the necessity of the products. Contrary to it, public ownership was evolved to avoid such uncertainties, and to make the investment according to the needs of the society. Therefore, the object of
public ownership was not only to establish the State management of industry "but to remove the dead hands of private ownership, when the private owner has ceased to perform any positive function".

5. Welfare Economy. The fifth argument for the public ownership was the creation of welfare economy. There was an assumption in the past that private interest and the public welfare functions were mutually consistent. In practice, however, the two ceased to harmonize in the actual performance of capitalist order in-as-much-as the methods and the results of private enterprise appeared to be anti-social. Individuals enjoyed the freedom of organizing and conducting the business in such a way that it was likely to improve their own interests. The system of private enterprise was incapable of achieving any social ideals as the "profit-motive" could not always reconcile itself with the "welfare concept". Therefore, with a shift of emphasis to problems of welfare, the inherent weakness of the economy was being more and more felt. Consequently, the intervention of an external agency, particularly the State, to bring under control any morbid development of the economy was required, as it is not always motivated by the profit motive but gives top priority to social considerations.

6. **Public Utilities and the Basic Industries Argument:** Public utilities and the basic industries, which are very useful for the welfare of the community and for the sound foundation of industrial development, are argued directly for State control. These are the industries on which the prosperity of the community depends, and where the private enterprise has no major drive for three reasons. Firstly, it requires large outlay of investment in a single project. Laying down a road, railway line or developing ports and establishing a heavy steel plant generally require an amount of capital which is beyond the capacity of the private entrepreneur. Secondly, such outlays need a relatively long time before they start paying off. Finally, many important projects such as defence and irrigation etc. cannot be left to the private entrepreneurs. Hence, this lack of initiative on the part of private enterprise, has retarded the pace of economic development of many countries. Consequently, Keynesian economics assigned the central role to the public sector in the developing countries in levelling out the zigzags of private investment to fill-up the gaps of deficiencies for the full employment.

7. **The Argument of Economic Planning:** One of the most important causes of the State ownership in the developing countries was the introduction of the concept of economic planning. The idea was not mentioned by the early Fabian Essayists. It was
only afterwards that the New Fabian Essayists used the concept of planning for full employment and to control the investment of key industries. In order to achieve this objective, they supported the case of nationalization. Because if the economy is left uncontrolled, the economic growth will be in a haphazard fashion. Since the control of economic powers is necessary in a planned way, the direct participation of the Government is therefore imperative. The State by entering into the economic activities, can have a fuller grip over the economy and thus the objectives of planning can be achieved. Hence, planning and the direct State participation are considered supplementary to each other.

Moreover, it has been argued by Crossland, an eminent thinker, that 'where planning is admitted to be desirable, it proves easier to achieve the objectives even under the private ownership. The Government has now entered into a wider variety of fiscal and monetary controls as they enable the Government to impose its will on private industry. The economic instability can now be checked by these devices'. Certainly, the policies as such cannot be checked, nevertheless, it is a matter of fact that Government-spending, which comes in the public sector, is one of the tools of the fiscal policy. In order to get the desired results of planning, the direct intervention of the State therefore cannot be omitted.
8. **Creation of Resources:** One of the important factors responsible for the emergence of public ownership of the economic institutions is the creation of resources through their surplus earnings. In the developing countries, the developmental programmes of the Government rely on the public expenditure. Functions of the State which were originally limited to the maintenance of law and order have considerably expanded now. For these enlarged objectives, the Government cannot depend merely on the taxation and borrowings and the State, in addition to the taxation and the borrowings, has to explore the possibilities of resource creation through non-tax devices, i.e., profits of the commercial and industrial concerns of the Government.

Non-tax revenue forms an important element in the Government's income. In recent years, the trend towards increasing socialism or State participation in economic enterprises has led in several countries to some shift of emphasis in favour of non-tax revenue through their surplus earnings. In countries with collective economies, where a large part of public revenue is collected through non-tax revenues, normally about 10 per cent of the public revenue in U.S.S.R. is derived from general taxation and loans, and remainder from the projects of national enterprises. In most non-collective countries, although the non-tax revenue is unimportant, but State activities, which give rise to non-tax revenue, are increasing\(^1\). Hence, the Government rely more and

more on the surplus earnings of the public sector enterprises and therefore, now it is making a bulk of the investment in the commercial and industrial projects.

From the above discussion, it becomes clear that the need of public sector arises for various reasons. Since the activities of the Government differ from country to country according to the circumstances prevailing there, various countries have adopted this method for different reasons. Some countries give an extensive role to the public sector, while other confine it only to the public works. Actually, in advanced economies, with abundant resources, the role of the Government is minor as everything gets adjusted by itself with little omission or commission. But in a developing economy, like India, where the resources are scarce, the role of the State is significant, since the economy is very sensitive and a little negligence can disturb the whole process. In Section II of the Chapter, we would analyse the economic justification of public enterprise in Indian economy.

**SECTION - II**

**A Case for India**

Public ownership is not new concept for the Indian economy. The control of the economic activities and the direct participation
of the State can be traced even before Independence when the share of the public enterprise in the ownership of productive capital assets was not insignificant. The book value of gross fixed assets owned by the Central and State Governments, together with the working capital in those enterprises amounted to Rs.375 crores at the end of 1947-48. It is nevertheless, a fact that public sector was considered as an effective instrument of transforming the economy only after Independence. It was because of the fact that after the attainment of Independence, the country faced with complex problems like shortage of food, refugees settlement, establishment of industries, providing employment etc., which necessitated the indulgence of the Government. In order to overcome the food problem, for instance, the public work was necessary in the direction of irrigation and power projects. Likewise, the basic industries were necessary to bring about an industrial development of the country. In addition, the investment of the State in basic heavy industries was also aimed at checking the concentration of economic powers in the few hands and for creating the resources of their surplus. The country, therefore, committed itself to the planned development to attain the aforesaid objectives and to bring about a balanced economy. In this way, after Independence, the public sector was assigned a comprehensive task in the economy. This section traces briefly the background of public ownership in the Indian economy before
Independence, and analyses the causes of the emergence of the public enterprise in India.

**India Before Independence:** The emergence of the public intervention in the industrial sector was due to the fact that since the beginning of the century, the country faced certain events of far-reaching consequences, such as the two world wars and the great depression, which compelled the direct participation of the State in the economic activities.

As a result of the experience gained during the First World War, Government of India decided that the establishment of certain industries was necessary from the point of view of effective defence. Therefore, after the commencement of First World War, the Government attempted to examine the question of industrial policy which led to the appointment of First Indian Industrial Commission, 1916-18. The Commission recommended 'that in future, the Government must play an active role in the industrial development of the country'. Then came the World War II, which affected most of the Eastern countries due to the cut-off of the supplies from Europe. So during the war period, Government began to recognize the necessity of industries for meeting the defence and civilian requirements. The measures adopted at that time were to flourish the newly established industries through the direct State participation. A number of schemes of post-war
development were prepared during this period where the role of the State was accepted as direct and positive. As early as 1940, the Commerce Member of the Viceroy's Executive Council announced that 'industries which were started during the war would be protected, if and when necessary, provided they were organized on sound lines'.

Furthermore, in the inter-war period, the great depression shattered the economies of the World's major powers and the policy of laissez-faire received a great set back. The intervention of the Government was imperative to bring about stability in the economy as it was not desirable to be left wholly in the private hands.

Thus, all these events necessitated the direct intervention of the State to overcome the problems. But it should be clearly mentioned here that the activities of the Government in the industrial field were confined only the sectors like railways, defence, post, communication, broadcasting, irrigation and power and a few manufacturing concerns.

The Industrial Policy Resolutions of 1948 and 1956: As pointed out earlier, the events left no other option for the Government but to enter directly in the economic activities. They brought about a definite change in the industrial policy of the Government of India. In July, 1944, the Government set up a Planning and
Development Department which issued a statement of Industrial policy in 1945. This was the first attempt on the part of the Government to establish a positive industrial policy. Hence, the public sector was assigned the intensive role to make the industrial policy successful. In view of the national importance, some of the manufacturing areas were reserved for the public sector. The Statement of Industrial Policy announced that 'basic industries of national importance, i.e., aircrafts, automobiles, chemicals, iron and steel, transport vehicles, electrical machinery should be nationalized if adequate private capital is not forthcoming and if it was regarded as essential in the national interest to promote such industries. All other industries will be left to the private enterprises under varying degrees of control'. It was in this statement that the term 'mixed enterprise' was mentioned for the first time which ultimately became the theme of 1945 Industrial Policy Resolution of the Government of India.

This Resolution defined the respective roles of public and private enterprises and divided the industries into three categories: Firstly, the manufacturing of arms and ammunition, the production and control of atomic energy, and the ownership and management of Railway transport shall be the 'exclusive monopoly' of the Central Government and that Government shall have the power to take over any industry vital for national interest. Secondly, the State authorities shall be exclusive
responsible for the establishment of new undertakings in coal iron and steel, aircraft manufacturing, ship-building, telephone and wireless apparatus and mineral oils, except where for the national interest, the State finds it necessary to secure the co-operation of private enterprise subject to such control as the Government may prescribe. Thirdly, the rest of the industrial field will be open to private enterprises, although State will participate in this field also.

Thus, it was the representation of 'mixed-economy' in which the State was assigned a definite and positive role to encourage the industry and trade. In a country like India, where infrastructure was either not built up by the alien rulers or was inadequate to meet the requirements of the economy, the basic and heavy industries were assigned to the State. For the rest, the State reserved the right to intervene, so as to attain harmonious development.

The Government of India recognised that it would be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. It also assumed that when in an industry both public and private units were operating, the State would give fair and non-discriminating treatment to both of them.

So far as the classification of industries into three categories is concerned, it was not made so rigid but it was for the State
to start any industry not included in schedule A and schedule B, when the needs of Planning so require.

After Independence, Planning Commission was set up by the Government of India in March 1950 to prepare for the most effective and balanced utilization of the country's resources. The resolution was passed and it defined the scope of its work. It said that the Constitution of India has guaranteed certain Fundamental Rights to the citizens of India and enunciated certain Directive Principles of State Policy. "The State shall strive to promote the welfare of the people — and shall direct its policy towards securing, among other things; (a) that the citizens, men and women equally, have the right to an adequate means of livelihood; (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; and (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

In order to fulfil these objectives, the planning Commission was required to make the programmes which would produce effective result. Within the framework of this policy, it was possible to have a programme of industrial development which could meet the country's needs. For such purposes, it was necessary for the State to expand its circle where the private investment was not forthcoming.

The First Five Year Plan was formulated and the policy already outlined earlier continued to be the basis of the industrial part of it. During the execution of the Plan this policy was gradually modified in a certain direction. There was a shift in ideological emphasis after 1953 which led ultimately to the acceptance of "Socialistic pattern of Society" as the goal of economic policy by the Congress Party. This naturally meant that further emphasis was placed on the public sector. The Prime Minister explaining the policy said that "India was progressing towards a classless and casteless society accordingly the socialist pattern . . . we cannot progress except by State initiative and except by enlarging the public sector and by controlling the private sector in a measure". This change in the policy resulted in the Industrial Policy Resolution of 1956. The Resolution recognised the importance of the Public sector in the entire economy of the nation. Also, the adoption of the Socialistic Pattern of Society as the national objective as well as the need for planned and rapid economic development required that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector.

Thus, the Industrial Policy Statement of 1956, which replaced the 1948 Statement, on which the recommendation of Second Five Year Plan was based, did not differ in fundamentals from the 1948 Policy Resolution. This Statement was reformulated
on the pattern of 1943 Policy Resolution but in much stronger terms as it was based on 'Directive Principles of State Policy' in the Constitution. Industries were divided in the same categories but here the public sector was assigned more responsibilities.

Causes of the Public Sector Emergence in India:

The case for the public enterprises in India can be built upon the need to attain the objectives of Planning, the creation of resources, self-sufficiency in the basic and the defence industries, the prevention of the concentration of economic powers and lastly, to bring about a welfare economy etc. These factors have been discussed in the following paragraphs.

1. Planned Development: Planning, which is adopted in the Indian economy after Independence, is one of the most important reasons responsible for coming up of the public sector in India. An underdeveloped economy is characterized by the co-existence of unutilized or underutilized man-power on the one hand and unexploited natural resources on the other. Underdeveloped countries have the acute problem of low production due to the low investment, which is due to the low per capita income and the lack of purchasing power. Here the system of self-regulation fails and planning becomes necessary for the maximum utilization of resources.
This is true in the case of India also, which is a poor country characterising with the same factors. Since per capita income of the people is very low it is obvious that the standard of living is also low. India suffered considerably from the alien rule. After attainment of Independence it had to face several problems such as the rehabilitation of the refugees, food shortage and the lack of raw-materials to industries. All these factors affected the entire economy severely and there was a need to apply an integrated approach in order to utilize the resources in the best possible way and to increase the overall production. Hence, the planning was imperative for the Indian economy as it brought about ordered economic development in the different sectors of the national economy for the purpose of attaining a set of objectives in order of priority through a careful deployment of the scarce resources available. The Planning Commission defined various objectives in the following words: "The central objective of Planning in India at the present stage is to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life. The problem of development of an underdeveloped economy is one of utilizing more effectively the potential resources available to the community, and it is this which involves economic Planning". Hence, maximum possible

production, full employment, the attainment of economic equality and social justice constitute the accepted objective of planning.

Since the objectives of planning lead to the betterment of society, therefore, there is need of a workable plan to fulfil these motives. With this in view the Planning Commission recommended certain suggestions and one of them was "the effective power, based on the active co-operation of citizens, in the hands of the State and earnest and determined exercise of that power in furtherance of these ends". Therefore, this argument emphasises the need of effective power of the State for the implementation of planning in order to have a full control over the economy. Because planning in backward countries imposes much bigger responsibilities on Government than it does in advanced countries. The Government has to perform many duties which in advanced countries can be left to private enterprises.

Hence, with the introduction of planning in India, State intervention was given a greater role with the aim of achieving maximum production. Now the State is expanding its direction in every succeeding plan and it is increasingly considered as the dynamic force particularly in the context of socio-economic objectives which are the primary aim of the State.

2. **To Provide Infra-Structure:** The basic services like transport, communications, irrigation and power enlarge the scope for utilizing unexploited resources. These services create the external economies to attract further investment at minimum cost. The intervention of the State in this field has been found to exist since the early period, but it was not satisfactory due to certain reasons. It was on the one hand due to the long period of alien rule and on the other the shyness of the private capital because building up of such projects require enormous amount of capital and involve high degree of risk. No private sector entrepreneur has ever offered to build a road or construct a dam in this country, as there are no profits in roads and dams and it is beyond the philosophy of private enterprise to undertake an economic activity just because it is useful for the nation. This is how public sector was forced to undertake the responsibility of these services as their importance is realized well and public sector rejects the narrow-minded conventional profitability criterion of the private sector.

Huge investments were made in the public sector for a number of infra-structure facilities like agricultural extension schemes, irrigation, railways, transport, communications, power, education and public health services. In the First Five Year Plan, the efforts were made to overcome the agricultural backwardness. Therefore, many projects concerning the problem were erected.
The DVC which was conceived in 1944 was implemented during this period. A number of multipurpose river valley projects, minor as well as major, were taken in hand. The Reserve Bank of India Act was suitably amended to provide special financial aid for the agricultural sector at a lower rate of interest. Railway transport was recognized, air transport was nationalized and road transport was taken over in most of the States.

3. Industrial Development: One of the most important factors of the State participation in the Indian economy, which was adopted by many of the developing countries, was the establishment of capital goods industries. A significant increase in national income and a marked improvement in living standards and employment cannot be secured without a substantial increase in the capital goods production. To this end, the building up and development of economic and social overheads, exploration and development of minerals and the promotion of basic industries like Steel, heavy machine building, coal and chemicals was necessary. The rapid industrialization was necessary to make the economy self-sufficient in those items which were heavily imported. But here too the private sector was not forthcoming with the required pace due to the capital-intensive and the long-gestation nature of these industries. Hence, the Government of India was left with no other option but to establish the basic industries
to make the economy self-sufficient in capital goods production. The heavy investment of the Government in industries such as Steel, Engineering and Chemicals was towards this direction. The case of public sector in India for the same purpose was emphasised by A.H. Hansen that "the extent of public sector which is stressed in the First and Second Plans is determined not by the formal rules embodied in the Industrial Policy Statements of 1948 and 1956 but by the comparative lack of private capital and private initiative for the industries on which the Indian Government has chosen to concentrate during the planning period. Private enterprise could not develop the steel, cement, coal, fertilizer, ship-building, automobiles, electrical and chemical industries at the rate demanded by the planners".

4. Augmentation of Non-tax Revenue: One of the important reasons, though realized lately, which inspired the Government's interference, was the augmentation of non-tax revenue. The functions of the Government which were originally limited to certain specific areas have considerably enlarge after Independence. Government has undertaken the responsibility of providing the public utilities in a substantial amount. Rapid industrialization of the country has also enlarged the functions of the Government. Hence, the resources were necessary to undertake the nation-

building schemes which were difficult for the private entrepreneurs due to the lack of capital.

The sources of the Government's finance are several, such as taxes, loans and the foreign aid. But these measures cannot be exercised excessively as they adversely affect the economic activities. Taxes cannot be levied to an unlimited extent as they are inflationary in nature. Excessive borrowings also create the instability in the economy. Therefore, the wide-intervention of the State in the economic fields was also advocated on the ground that by running certain profit-margin concerns, the State may create the resources. The surplus of public ownership was also required as its revenue reduces the burden on the taxpayers. Hence, the Government's policy on this factor was quite clear, 'that profit considerations from the public sector has also been influenced Government thinking in the matter of owning and managing industrial enterprises'.

Although most of the public undertakings are assigned to public works and sometimes certain undertakings are run on 'no-profit-no-loss' basis, yet the public sector provided surplus in the form of profits. In the First and the Second Five Year Plans, only Railways were able to make some contributions. It was only in the Third and the Fourth Plan that other undertakings also realized their profit-earnings. In the Third Plan, Rs.435 crores were realized from the public sector undertakings while in the
Fourth Plan, Rs. 1135 crores were collected from this source. Thus, surplus earning from the public sector enterprises is considerable which creates the capital formation for the plan outlay.

5. Reducing the Disparities: The other important factor favouring the public ownership and the direct operation of production was the equitable distribution of income and wealth, which forms the basis of the general welfare of the society. The first concern of the Independent State was to check the disparities of the social production as it was clearly stated in the 'Directive Principles of the State Policy' of the Constitution 'that the ownership and control of the material resources of the community are so distributed as best to subserve the common good; that the operation of the economic system does not result in concentration of wealth and means of production to the common detriment'. Here the line of thinking was that the benefits of economic development must acquire more and more to the relatively less-privileged classes of society and there should be a progressive reduction of the concentration of income, wealth and economic powers.

The tendency towards concentration of economic powers is countered in a variety of ways. Firstly, through the extension of public sector into fields requiring the establishment of large scale units and heavy investment. Secondly, through widening
opportunities for new entrants, medium and small-sized units, and for industries organized on cooperative lines. Thirdly, through effective exercise of Government's power of control and regulation and use of appropriate fiscal measures. Although this last alternative is an important measure to reduce the inequalities of income and wealth, but it kills private initiative. Contrarily, the expansion of the public sector breaks the concentration of wealth and serves a two-fold purpose. It helps to remove certain basic deficiencies in the economic structure and at the same time it reduces the scope for accumulation of wealth and large incomes in private hands. The share of public sector in the large industries of minerals, transport and electric power has increased rapidly and has checked the concentration of wealth and monopolies of the private sector. Although, the concentration of economic power is not always harmful as it has helped the economic betterment of the country, it has often pushed forward the development of further industries, which has been to the advantage of the country. At the same time, this concentration of wealth and power has brought about various evil effects on the country's economy. "The most serious of these is the risk of emergence of monopoly with its attendant evils - high prices for the consumer, deterioration in quality, and last, but not the least, keeping out the small industrialists. "Big business" by its very 'bigness' sometimes succeeds in keeping out competitors."

While discussing the unequal distribution of income and wealth, it becomes imperative that the regional disparities should also be removed. In India, States like W. Bengal and Maharashtra are highly industrialised while many others are comparatively backward. In any comprehensive plan of development, it is axiomatic that the special needs of the less-developed areas should receive due attention. The pattern of investment must be so devised as to lead to balanced regional development. The problem was particularly difficult in the early stages when the total resources available were inadequate in relation to needs. As development proceeds and large resources become available for investment, stress of developmental programmes should be more on extending the benefit of investments to underdeveloped regions. Only thus a diversified economy can be built-up.

Frequently in the early phase of development, there was a dilemma to be faced whether it is better to concentrate on developing more favourably situated areas and thus securing quicker and larger returns from the investment, or to aim at more even development of the country through greater attention to the more backward areas. Actually, as the economy develops it becomes possible to provide for more intensive development in the less developed areas.

Regarding this phenomena, the functions of the Government were substantially significant as the industrial expansion programme under the public sector could largely meet this requirement. Keeping in view the regional requirements, the public sector units were allocated to the different States. For instance, the three major steel Plants under the public sector were installed in the different States (M.P., Orissa, and W. Bengal). In the First Plan, Heavy Electrical Plant was set up at Bhopal and the second plant was established in U.P. for the basic reason that U.P. has not been allocated any heavy and major plant. Now the Government is making heavy investment in the backward regions to bring them at par with the developed regions.

6. Public Welfare: The fulfilment of some of the specific aims of social and economic justice incorporated in the Constitution of India is the another reason for the State installing the public sector projects. Whenever and in whatever condition the existing and available agencies fail to advance the welfare of the society as a whole, it is the obligation of the State to take active steps for this purpose. Certain vital things, which the individual can never do, either because he has not the necessary strength to perform them or because they would not pay him, are established directly by the State. The Government has made bulk of the investment in several of the promotional and developmental
projects such as multipurpose irrigation works, transport and the rehabilitation works etc., which provide the socio-economic benefits to the country. The social and economic benefits flowing from the multipurpose projects are so many and beyond the scope of actual measurement. Taking the case of irrigation, it is an integral process linked up with village economy which may include land improvement and reclamation, drainage, organization of communication, migration, re-distribution of agricultural industries and domestic water supply etc. Irrigation, therefore, contributes to the well-being of the society on a broad basis.

The public investment in the job-generating scheme, which is the burning problem of the day, is also desirable on the ground of welfare of the people. At present, the Government is the biggest employer and the growth of employment depends, to a considerable extent, upon the public sector investment in industry, mining, transport and communications. Now the Government employs a large number of the persons in her commercial and industrial institutions. The concept of the welfare State is maintained also by making available a basic economic minimum together with amenities and welfare facilities to each and every employee in the public sector industries. Moreover, public enterprises are called the 'model employer' not only to promote welfare but also to serve as a model for industries in private sector.
7. **Defence Industries Argument**

Apart from the basic and heavy industries, the defence-producing projects are exclusively reserved for the public sector because they cannot be left for the private entrepreneurs due to their strategic importance for the national defence. Since the early period, these establishments have been under the State control in India. The two World Wars made the responsibility of the Government more obvious as dependence upon the private sector was difficult. The statements of the Industrial Policy Resolutions of 1948 and 1956 have reserved the rights of the State to maintain all the Ordinance factories. In this confronting age, the expenditure on the defence industries has increased to a high level, hence, the responsibility of the Government has been more in this field. Now the public sector manages Hindustan Aeronautics, Bharat Electricals and also Heavy Vehicle factory etc.

Thus, we have gone through the causes of the emergence of public ownership in India. Due to these factors, public sector is attaining the top position in the economy. In the following paragraphs, a plan-wise account of scope and extent of public sector industries and investment has been recorded.

**Scope and Extent of Public Enterprises**

The public sector constitutes the core of industrialisation and covers a very large field including transport and communication, minerals, and other
basic industries. Railways are the biggest industry of the country both from the point of view of employment and capital. There are other big establishments which are necessary for the economic development of the country.

The proportion of investment in the public sector out of total investment in the national economy has been steadily rising since 1951. The ratio of investment in the public sector, though lower than the private sector initially increased in the later plan periods. Investment in the public sector has increased from 46.4 per cent in the First Five Year Plan to 64 per cent in the Fourth Five Year Plan, mainly due to the fact that India has accepted the Socialistic Pattern of Society in which State performs some vital responsibilities which are beyond the capacity of private sector. State had to invest in such projects which are not only essential for the economy but also for social welfare of the masses; as it is evident from Table I.
**TABLE - I**

Distribution of Plan outlay in Public sector (Rs. in crores)

<table>
<thead>
<tr>
<th>Head of the Development</th>
<th>1st Plan Amount</th>
<th>%</th>
<th>II Plan Amount</th>
<th>%</th>
<th>III Plan Amount</th>
<th>%</th>
<th>IV Plan Amount</th>
<th>%</th>
<th>(Anticipated exp.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agri. and Allied sectors</td>
<td>291</td>
<td>15</td>
<td>529</td>
<td>11</td>
<td>1068</td>
<td>14</td>
<td>2320</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td>2. Irr. and Flood control</td>
<td>310</td>
<td>16</td>
<td>420</td>
<td>9</td>
<td>850</td>
<td>9</td>
<td>1354</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>3. Power</td>
<td>260</td>
<td>13</td>
<td>445</td>
<td>10</td>
<td>1020</td>
<td>13</td>
<td>2932</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>4. Village and small industry</td>
<td>43</td>
<td>2</td>
<td>176</td>
<td>4</td>
<td>264</td>
<td>4</td>
<td>243</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>5. Industry and Minerals</td>
<td>74</td>
<td>4</td>
<td>900</td>
<td>20</td>
<td>1520</td>
<td>20</td>
<td>2364</td>
<td>18.3</td>
<td></td>
</tr>
<tr>
<td>6. Transport and Communication</td>
<td>523</td>
<td>27</td>
<td>1300</td>
<td>28</td>
<td>1486</td>
<td>20</td>
<td>3080</td>
<td>19.5</td>
<td></td>
</tr>
<tr>
<td>7. Social service and other programmes</td>
<td>459</td>
<td>23</td>
<td>830</td>
<td>18</td>
<td>1300</td>
<td>17</td>
<td>2986</td>
<td>18.9</td>
<td></td>
</tr>
<tr>
<td>8. Inventories</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1960</td>
<td>100</td>
<td>4600</td>
<td>100</td>
<td>7500</td>
<td>100</td>
<td>15779</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>


The above table shows the distribution of outlay in the public sector during the Five Year Plans. The distribution of investment in different heads reflects the priorities. In the First Five Year Plan period, agricultural development was given a place of
pride including an extensive programme of irrigation, minor as well as the major projects. Generation of electric power, which was linked in most cases with the major project was given priority. Priority on agriculture was necessary because without a substantial increase in the production of food and raw materials for industry, it would have been impossible to sustain a higher tempo of industrial development. Due to this very reason "the high priority given in the investment programme of public sector to the investment of agriculture limits inevitably the investment which the State can itself undertake in the industries especially large scale industries".

The priority on agriculture does not mean complete neglect of industries. The plan provided the provision for completion of the various industrial projects already under implementation by the Central Government or by State Governments. The Central Government had a special responsibility for establishing certain defence industries. The Sindri Fertilizer Factory and the Chittaranjan Locomotive Factory started production. The production of high precision machine tools, telephone equipment, dry core cables and news-print envisages in the plan also strengthened the industrial structure and some of the important industries were also commissioned in this plan. These include Hindustan Steel Ltd. which was incorporated in 1954 for the management of Rourkela Steel Plant, Hindustan Machine Tools Ltd. was incorporated in

1. Government of India Planning Commission, First Five Year Plan, New Delhi, 1952, p. 44.
1953, National Industrial Development Corporation Ltd. set up in 1954 and Indian Airlines set up as statutory Corporation in 1953.

The Second Five Year Plan in a sense was a continuation of the development efforts commenced in the First Plan, but there was a shift in the priorities with a large accent on industrialisation specially the development of heavy industries and the necessary ancillaries like transport. The responsibility for some industries like oil exploration, coal, and atomic energy was given to the Central Government.

The allocation under major heads of development shown in the above table indicates the relative shift in priorities between the First and the Second Plan. Industries and mining claim about 20 per cent of the total public sector outlay as compared to 4 per cent in the First Five Year Plan. Transport and Communication accounted for 28 per cent of the total outlay in the Plan. 19 per cent of the total outlay of Central and State Governments was devoted to irrigation and power and 18 per cent of the outlay to social services as compared to 23 per cent in the First Five Year Plan.

In the Third Five Year Plan, the development of basic industries such as steel, fuel and power, machine building and chemical industries was fundamentally for rapid economic growth.
These industries largely determined the pace at which the economy can become self-reliant and self-generating. Programmes for industrial development have been drawn up from the point of view of the needs and priorities of the economy as a whole. Moreover, the Third Five Year Plan recognized the efforts to build up small industries as a vital segments in the industrial structure by promoting greater integration between large scale and small scale industries, spreading the benefits of industrialisation to small towns and rural areas.

The percentage of total plan outlay in this plan remained almost the same as it was in the Second Plan. Major change occurred in Transport and Communications, i.e., it was reduced to 20 per cent in the Third Plan from 28 per cent in the Second Five Year Plan. The major industrial projects in the public sector included were in the fields of metallurgical, industrial machinery, machine tools, petroleum refinery and steel.

Fourth Five Year Plan makes no major change in the allocation of investment percentage of the heads industry and minerals, transport and social services. While there is a little change in agriculture, irrigation and power. The overall pattern of industrial growth is the same in this Plan as it was in the Third Five Year Plan. The major proportion of the outlay in the public sector of the Fourth Plan intends for the completion of projects already under implementation and projects on which
investment decision have been taken. Now projects are envisaged in high priority fields like fertilizers, pesticides, petrochemicals, non-ferrous metals and development of iron ore, pyrites and rock phosphates resources.

Taken as a whole the public sector investment would strengthen the control of Government over the commanding heights of the economy. Thus, the public sector accounts for a little over three-fourth of the investment in the core sector during the Fourth Five Year Plan period. It occupies a pre-eminent position in the industrial field. At the same time, the public sector entered into the field of consumer goods industries particularly in the fields in which adequate private investment is not forthcoming. In the introduction of the Fourth Plan, Prime Minister, strengthens the case for public sector that "in addition to the fight against poverty and economic inequalities, the Plan seeks to enlarge the area of self-reliance in terms of financial resources and technological inputs. Here, too the public sector has an important part to play 1.

Conclusion

In the foregoing discussion, a detailed study of the factors responsible for the emergence of public enterprise in general and India in particular, has been made. Consequently,

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it becomes clear that the public ownership was based on the economic justification. Unequal distribution of wealth, considered as the stimuli for economic growth, where the capitalists come forward with their investment and raise the production of the country, failed to achieve the objectives. They exploited the working class by paying them minimum wages which brought about the unhappiness to the society. The economic disparity was the cause of creating instability in the economy. The capitalists failed also to bring about any drastic change in the socio-economic development of the country, due to their vested interest of high profits. It was the public interference which brought about certain changes by its diversified activities.

Public ownership has now been found to be the essence of economic base almost in every country. Only the difference is of its phase and the degree. Some countries assign the minor role to the Government, while others rely more on the Government activities. In pre-Independence India, the role of State was minor, confined only to the public utilities. After the attainment of Independence, the need of the interference by the Government was felt considerably. Public sector investment was directed towards irrigation and power projects to overcome the food shortage. The investment was also made in the capital goods to bring about the industrialization in the country, where the private investment was shy. At the same time, the heavy industries
of the public sector minimized the concentration of economic powers of the society. Moreover, the commercial and the manufacturing concerns of the Government were expected to create the surplus for the plan outlay. Last but not the least, in order to bring a balanced economic growth, the country adopted the economic planning, where the role of the State was inevitable.

India adopts the 'mixed-economy', where the public and private sectors work together. But the expansion of public sector has been emphasized in all the succeeding plans, and now it occupies a pre-eminent position in the industrial field. Here the interference of the Government is found almost in every sector and the number of public undertakings has been increasing at a tremendous rate. The expansion of public enterprise, apart from other developmental and promotional activities, lies in the fact that Government inclines to collect the finance through their earnings. Because now Government performs various tasks such as providing public utilities and the expansion of industrialization where private entrepreneurs are hesitant to enter. Though the Government for these activities collects revenue from various sources such as taxation, borrowings and the external assistance the economy is affected adversely if they are indiscriminately imposed. Hence, the Government ultimately depends upon the revenue collected through the surplus of public enterprises. It is in this perspective that the Union and State Governments mobilise their resources through public enterprises as against other methods, such as taxation, borrowings, external assistance, etc. This forms the subject matter of Chapter II.