CHAPTER III

PUBLIC UNDERTAKINGS AND THEIR CONSTITUTIONAL-LEGAL FOUNDATIONS
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Growth of public undertakings which is supposed to be one of the concrete manifestations of the economic transformation of a society from unmitigated capitalism has had a chequered history in India. Until recently when the 44th Amendment to the country's constitution relegated the right to property to a mere legal right, the title of the State to the commanding heights of the national economy used to be regarded as circumscribed by the Fundamental Right guarantted to the citizens to acquire, hold and dispose of property. The State was originally given an option to acquire private property to be used for expressly declared public purposes on payment of due compensation. Of more direct relevance for the basic framework of the economic system that is to be created are the Directive Principles of State Policy which, among other things, call upon the State to ensure that: (i) the ownership and control of material resources of the community are so distributed as best to subserve the common good, and (ii) the operation

1. Ramanadham, The Structure of Public Enterprises in India. Chapters I, II, IV-VI.
of the economic system does not result in the concentration of wealth and means of production to the common detriment.  

It would be reasonable to assume that these Directives provided the necessary constitutional basis for the public endorsement of an economic system which eventually earned the nomenclature of 'Socialistic Pattern of Society'. If the Directives simply indicated the approach towards development in broad terms, the notion of socialist pattern of society sought to give this approach, for the first time, a concrete expression. The essence of the Directive Principles, if carefully examined, lies in Article 38 of the Constitution which runs thus: "The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of national life".

It is easy to see how a socialist pattern of society can be an embodiment of these principles. It means a set-up which is not wholly socialist, but corresponds to some of the norms (mainly economic) of a socialist society, although the degree of approximation of the 'pattern' to its prototype remains vague. As the Planning Commission put it, "Essentially

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this (Socialist pattern of society) means that the basic criterion for determining the lines of advance must not be private profit, but social gain, and that the pattern of development and the structure of socio-economic relations be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in income and wealth. Major decisions regarding production, distribution, consumption and investment — and in fact all significant socio-economic relationships — must be made by agencies informed by social purpose. 3

"The socialist pattern of society is not to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. Each country has to develop according to its own genius and traditions. Economic and social policy has to be shaped from time to time in the light of historical circumstances. It is neither necessary nor desirable that the economy should become a menolithic type of organisation offering little play for experimentation either as to forms or as to modes of functioning ........."

It is evident from the above that since the State shall engage in the development and growth of the economy

some spheres, which are of supreme importance from the viewpoint of the nation's welfare, are to be dominated by it. The sphere of economic activity which is owned, controlled and regulated by the State is called the public sector.

This sort of economic arrangement, as we shall see, is not merely a child of policies without a constitutional lineage. Indeed, there are a number of constitutional sanctions in favour of the growth of a public sector in India.

First, it can be pointed out that the emergence of the public sector in Indian economy was clearly envisaged by Article 39(b) of the Constitution which provides that the State shall, in particular, direct its policy towards securing that the ownership and control of the material resources of the community are so distributed as best to subserve the common good. From this follows the 'Mixed economy' principle which is inherent in the Industrial Policy Resolution, 1948. Moreover, the ideology of 'Socialist pattern of society' emanating from the 'Directive Principles' of the Constitution is incorporated into the Industrial Policy Resolution, 1956. And in both the policies, a specific role of the public sector is assigned.
Secondly, we can refer to the provisions of Article 31(c). It states that: "Notwithstanding anything contained in Article 13, no law giving effect to the policy of the State towards securing the principles specified in clause (b) or clause (c) of Article 39 shall be deemed to be void on the ground that it is inconsistent with, or takes away or abridges any of the rights conferred by Article 14, Article 19 or Article 31; and no law containing a declaration that it is for giving effect to such policy shall be called in question in any court on the ground that it does not give effect to such policy ............"

Thirdly, reference may be made also to the provisions of Article 246 of the Constitution by which the Parliament has exclusive power to make laws with respect to any of the matters enumerated in List I (i.e. union list) and in List III (i.e. concurrent list). In the seventh schedule of the union list of powers, there are the following interesting items: (i) industries necessary for the purpose of defence or for the prosecution of war (item no. 7); (ii) the Railways (item no. 22) and (iii) industries, the control of which by the union is declared by Parliament by law to be expedient in the public interest (item no. 52).
There is thus no ambiguity in the constitution about the legality and desirability of a mixed economy being operated in the country with the pride of place being assigned to the public sector. Nonetheless, public sector in India stands upon no doctrinaire Socialism and no analogy can be drawn in this connection with either the Soviet process or the West European Countries as well as Great Britain's nationalisation policies. In India, public sector is but an important limb of the economic body of the country and not the body itself as in the Soviet system.\(^4\) Public enterprises have entered the national economy without either displacing private enterprise or shutting out private enterprise in their own sectors of operation. This will be evident from an examination of the two Industrial Policy Resolutions, one of which was adopted before and the other, after the promulgation of the present Constitution.

Sec. II : Growing Precedence of the Public Sector.

**Industrial Policy 1948**

The first formal enunciation of the Government's intentions for the industrial system was heard in the industrial policy statement of April 6, 1948. While it clearly

indicates the active participation of the State in the process of industrialisation, the conditions prevailing at that time are not such as to permit it to function forthwith with in industry as widely as may be desirable. As such the industrial policy resolution followed the principle of 'mixed economy' featuring the coexistence of public and private sectors side by side.

In view of this, the industries were divided into four broad categories:

(i) The manufacture of arms and ammunition, the production and control of atomic power and the ownership and management of railway transport shall be the exclusive monopoly of the State.

(ii) Industries such as Coal, Iron & Steel, Aircraft manufacture, Ship-building, manufacture of telephone, telegraph and wireless apparatus, Mineral oils, etc. were included in the second category. Further, new undertakings in these industries could henceforth be taken over by the State. Moreover, the existing undertakings were allowed to continue for ten years at the end of which the Government had an option to nationalise them. Management of State enterprise
was, as a rule, to be through the medium of public corporations under the statutory control of the Central Government.

(iii) The third category included industries of such basic importance that the Central Government would feel it necessary to plan and regulate them. These industries were salt, automobiles, tractors, prime movers, electric engineering, heavy machinery, machine tools, heavy chemicals, fertilizers, rubber manufacture, etc. The list was not exhaustive.

(iv) A fourth category comprising of the 'remainder of the industrial field' was left open to private enterprise, individual as well as co-operative. However, the State was to progressively participate in this field and it would not hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory.

Apart from these, the policy resolution emphasised the role of small-scale and cottage industries, a policy of fair labour conditions as an essential basis for harmonious relation between management and labour and the progressive Indianisation of foreign concerns.

The main achievement of 1948 Industrial policy, it has been observed, was in laying the firm foundation of a mixed or
controlled economy in which "both private and public enterprises would march hand in hand together to accelerate the pace of industrial development and it was the mould in which our Five Year Plans had been shaped." The reason behind laying so much stress on public enterprise in all conceivable fields of economy is that the task of development can only be borne by the State itself and cannot be left to the free will of the private sector alone.

The Industrial Policy Resolution, 1948, so to speak, assigned only a modest role to the public sector. It was made complementary to the private sector. The resolution seemingly aimed at realising the pent-up forces of capitalism which were stunted during the colonial rule and the public sector was to provide the overhead facilities for its growth. The defence and atomic industries and the railways were to be "the exclusive monopoly" of the public sector. It has been rightly said that "the document simply endorsed the existing state of affairs." At that time the atomic industry was nonexistent and defence and railways were already in the public sector. In six other industries, viz. coal, iron & steel, aircraft manufacture, ship-building, mineral oils


and telecommunication appliances, the State was made "exclusively responsible for the establishment of new undertakings" but the already existing private sector enterprises in these industries were allowed not only to continue but also to expand. 7

Industrial Policy

1956

The Industrial Policy Resolution, 1956 replaced the 1948 Resolution. During this period of eight years, significant changes and developments had taken place in India. The Constitution of India had been enacted guaranteeing certain Fundamental Rights and enunciating the Directive Principles of State Policy. Parliament had accepted the 'Socialist pattern of society' as the basic social and economic policy. It has been already noted that the phrase 'socialist pattern of society' does not convey the same meaning as the term 'socialism', because the mixed economy philosophy of private and public sectors operating side by side is accepted for good. Of course, the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings. The resolution contemplates that the

private sector will grow as an effective partner in the role of economic development and assures it a fair treatment in these words "when there exist in the same industry both privately and nonprivately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them". The coexistence of private and public sectors is therefore an accepted policy, and public enterprise is, therefore, of special significance in India. In a socialist economy, nationalisation is effected for more revenue purposes while the revenue motive occupies only a secondary place in India's nationalisation policy which is based more on distributional effects of economic activities.

The Industrial Policy Resolution, 1956 explained the reasons for assigning a bigger role to the public sector, or in other words, making it the engine of economic development in the following words:

"The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in
present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the further development of industries over a wider area."

The Industries were divided into three groups. In the first group were the industries the future development of which was to be the exclusive responsibility of the State (Schedule-A). The second group consisted of industries which would be progressively brought under the public sector and in which the State would generally take the initiative in establishing new undertakings (Schedule-B). All the remaining industries were included in the third group (Schedule-C), and left to the private sector to develop but the State reserved the right to regulate them.

It should be noted that these categories do not constitute water-tight compartments. For example, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector while the private sector in turn, would rely for many of its needs on the public sector. Compared to the 1948 policy, although the State is now much more the senior partner, yet the public and private sectors are still expected to work closely together.
Theoretically, however, the so-called 'mixed economy' principle, followed in the resolutions of 1948 and 1956 has got to be a transitional one or else socialism will remain a far cry. After all, coexistence of the public and private sectors cannot remain peaceful for a long time. The reason is that the objective of the public sector is the attainment of 'maximum benefit of the people' and since it is owned by the State it has no such commercial motive as is visualised in the private sector. On the other hand, the private sector industries are owned by the private industrialists or capitalists and their motive is to earn 'maximum profit'. Therefore, there is an inherent contradiction in the objectives of the two sectors. They may temporarily coexist, but in the long run, one sector must prevail over another. In this connection, the future growth of the public sector is handicapped because of the following reasons:

(i) There is no specific time-limit beyond which the industries under the private sector are to be brought within the control of the public sector or nationalised.

(ii) In a socialist framework, ownership of the means of production is to be vested in the hands of the State. But in India, there is no such attempt to abolish private ownership and to bring the industries at the disposal of the State.
(iii) Moreover, the division of industries into separate categories does not simply mean that they are being placed in water-tight compartments. As has been referred to above, in appropriate cases, privately owned units may be permitted to produce an item falling within Schedule-A (i.e. industries reserved for the State) for meeting their own requirements or as by-products.

The reality of the situation being what has been depicted above, one tends to feel that the main task of the public sector was not so much to usher in socialism outright as to take the country on to an 'independent capitalist path' and facilitate the rapid development of Indian Capitalism. At no stage of the country's history since independence was there any intention on the part of the ruling circles to use the public sector to abridge the scope of the private sector or to prevent ascendancy of the monopoly bourgeoisie. As Dr. V.B. Singh, a renowned economist, has remarked in Indian Economy: Yesterday & Today, the State failed to take control of the commanding heights of the economy. Thus, the financial institutions (barring the 14 nationalised banks), a significant segment of the transport system and almost the entire trade system remained in the hands of the private sector.
Moreover, the State took upon itself the task of providing the social and economic infrastructure which has tended to increase the opportunities open to the private sector as well as to increase profitability of the private industry. The operation of the public sector has, in fact, tended to strengthen the hands of the big industrialists.  

The point is that the failure of mixed economy policy to achieve its stated objective is not a matter of mere accident or administrative inefficiency. The failure is inherent in the constitutional right to property and the corresponding absence of the right to work or employment.  

This unfortunate outcome of the first two decades of mixed economy policy gave rise to two distinct trends of reaction in the relatively articulate public mind. On the one hand, there was the conservative segment of public opinion which retained its sense of complacency, based on the notion that the existing state of affairs was the inevitable product of the stresses and strains of transition and was likely to be set right as the economy takes off to a higher speed of development. On the other hand, there was the growing  

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impatience with the continuing stagnation of the economy which again was sought to be explained in terms of the political conservatism inherent in the heterogeneous composition of the ruling party. There arose, therefore, a regular demand for radicalization of the social and economic programmes of the ruling party which eventually led to the Bombay resolution of the 73rd Session of the AICC and culminated in the great split of the congress party.

That the radicals within and outside the ruling party were correct in their diagnosis of the economic malady facing the country could be substantiated by making a comparison of Indian economic policy of the 50s & 60s with the Russian experiments in mixed economy. It would be seen that the mixed economy in U.S.S.R. was meant to be a quickly passing phase during the consolidation of the socialist regime and necessarily led to higher and higher commitments in favour of eventual socialization of the economy. Some such trend was expected to be set in India when the Government decided to review its industrial policy in the early 70s.

Let us turn to the Industrial Policy of 1970, resulting from the recommendations of the Industrial Licensing Policy Inquiry Committee (ILPIC), popularly known as the Dutt Committee.
The Industrial Licensing Policy of February 18, 1970 was formulated in the context of the Fourth Plan. The Government considered it desirable to update the industrial licensing policy in order to reflect the socialist approach to the Fifth Plan and taking into account the legal and institutional arrangements that were available for the effective control of the concentration of economic power. The intention in amending the industrial licensing policy at this time was that greater clarity in the investment climate would facilitate the priorities and production objectives in the 5th plan.

The Industrial Licensing Policy of 1970 placed certain restrictions on undertakings belonging to the larger industrial houses as defined in the report of the Industrial Licensing Policy Inquiry Committee (ILPIC). Such concerns were ordinarily excluded from participating in sectors other than the core and heavy investment sectors leaving the opportunities in the remaining sectors primarily to other classes of entrepreneurs. The definition of larger industrial houses adopted by the ILPIC was, however, on the basis of assets, along with assets of inter-connected undertakings, exceeding Rs. 35 crores.
According to this Committee, besides the private and the public sectors, in the interest of harmonious economic development there was need for a new sector—a joint sector. This was envisaged as something in between the two, to include those units in which there had been, or would be, both public and private investment and where, as a corollary, the State could and should take an active part in direction, control and management.

A careful examination reveals that the concept of a joint sector is basically an extension of the idea of mixed economy in which the public and the private sector units are separate and function independently, but are nevertheless part of a national plan. In the joint sector, the relationship between the representatives of the private and public sectors is much closer as they have to work together within the same unit.

The new policy was announced by the Government of India in February 18, 1970. The Government accepted the concept of the joint sector and laid down that while sanctioning loans or subscribing to debentures, public financial institutions should in future have the option to convert them into equity,
either wholly or in part, within a specified period of time. Even in the case of loans granted and debentures subscribed in the past, the financial institutions concerned were asked to negotiate conversions at their discretion, especially in cases of default in repayment.

This method of securing Government participation in the management of private undertakings has been assailed by many as "nationalisation by the back door". Private entrepreneurs have argued that it would result in Government interference in the running of the units concerned. Others have, however, welcomed the concept of a joint sector on the ground that this is preferable to a wholesale takeover by the Government of existing private undertakings.

With the acceptance of the recommendations of the Dutt Committee, the arguments for reservation of industries of basic and strategic importance in the public sector were set aside. Since the core sector was composed of industries with high linkages the private sector by making an inroad into the crucial sectors should exercise control over the entire economy. In this connection Dr. V.K.R.V.Rao has stated: "The private sector sets the mood and tone. The country
suffers from a mixture of institutional motive forces, with one tending to stifle another". It was quite possible that the private sector might start back-seat driving even in the basic and crucial sectors of the economy.

The report of the Dutt Committee is a landmark in the sense that it makes the most forthright indictment on the working of our economy leading to the growth of monopoly capital and economic concentration in the hands of a few business houses. Instead of taking steps for the avoidance of monopoly or concentration of economic power, the Dutt Committee laid much stress on economic growth. Myrdal appropriately puts it. 9 "It is new investment that the Government is interested in planning for a relative as well as an absolute increase in the public sector. Such planning does not need a socialist justification, but merely the decision to steer investment towards heavy industry where private industry is not forthcoming. When private industry wants to enter, it is not stopped very effectively, even in that field".

The Dutt Committee had envisaged the joint sector as "an important means of curbing the increasing concentration of economic power" but the Tatas and the FICCI (Federation of Indian Chambers of Commerce and Industries) have welcomed the joint sector proposal. This is because the joint sector in its actual operation is the latest instrument of protection and promotion of the Indian monopoly capital. In this connection, the rationale and timing of the joint sector are worth mentioning. "The joint sector came at a time, just after the industrial recession of the mid-1960s when monopoly's inducement to invest had suffered. It can be shown that by providing even more investment finance than hitherto provided by public financial institutions, and by Government facilitation of the investment process without endangering in any way private management and control, the joint sector raises monopoly's inducement to invest considerably. The joint sector is also a means to expand the areas and spheres of Indian monopoly relative to the public sector without a corresponding reduction in the volume of public investment". 10

Moreover, the joint sector policy appears as an alternative to the nationalisation of monopoly houses

although such nationalisation is both institutionally necessary and technically feasible. Institutional necessity lies in the elimination of the monopoly houses which would remove the factors standing in the way of industrialisation. It is technically feasible because such nationalisation is not a cumbersome process, and the amount of compensation required for such purposes becomes available owing to the existence of large Government equity in monopoly houses and holding-company structure nature of Indian monopoly houses.

It is, therefore, difficult to resist the conclusions that what India is having today is some sort of an accommodative capitalism that welcomes and thrives on an economy managed mainly by the State. As an analyst says - "The movement of the Indian mixed economy is clearly discernible: the transformation of the mixed form to a purer and purer form of capitalism, under the aegis of monopoly capital. The shift in emphasis from the public sector to the joint sector as an instrument of economic and social policy, is only a short step away from the handling over of the joint sector, at a future appropriate date, completely to the private monopoly sector. This process has already started in certain existing joint sector enterprises, as in Kerala Spinning, an enterprise started jointly by the Birlas and the Kerala State Government, but subsequently taken over by the Birlas".

11. Ibid, p. 36.
It will not be out of place to make a brief comparison here between the mixed economy policy in the Soviet Union and in India. The idea of mixed economy was first introduced by Lenin in the U.S.S.R. into the New Economic Policy which was universally referred to as NEP. It was a form of mixed economy, with an overwhelming private agriculture, plus legalised private trade and small-scale private manufacturing. Thus, there is some similarity in the economic policies pursued in the U.S.S.R. and India (since the concept of mixed economy found its place in the industrial policy resolutions of 1948 and 1956). But such a policy was a transitional and not a permanent feature of the post-revolution Russian economy and it was later on replaced by a definite programme of socialist reconstruction. The shift of policy can be explained in this way: The resumption of the offensive against the private sector was inherent in the very concept of NEP from the first. The State become stronger, better able to run trade and industry and in a position to begin to provide capital equipment which would ultimately revolutionise social and productive relations in agriculture.\footnote{Alec Nove, An Economic History of the U.S.S.R., Allen Lane Penguin Press, London, p. 138.} NEP was a forced compromise with the
hated enemy. However, to see things in this way is gravely to underestimate the extent of the change of policy which was taking shape gradually from 1926. This culminated at the end of the decade in what can best be described as the Soviet great leap forward. But in India, the idea of mixed economy is considered not a transitional but a permanent feature. It is very often declared that such a policy is quite in conformity with the ideals of democratic socialism. It is regarded as a viable alternative to both capitalism and socialism. Jawaharlal Nehru once said that mixed economy "is a middle path between the orthodox practices of the communist countries and the capitalist countries".

Accepting for argument's sake that such were the real intentions behind the mixed economy policy, it will be necessary to examine at the level of dispassionate scholarship the concrete achievements of the policy of state-dominated mixed economy and their impact on the economic order as a whole.

**Distribution Aspect of the Public Sector**

The remarkable achievement of our economy during the past 25 years is the emergence of the public sector on
a large scale. The following table shows the growth of public sector undertakings over different plan periods.

<table>
<thead>
<tr>
<th>Period</th>
<th>No. of undertakings</th>
<th>Total Investment (Rs. in crores)</th>
<th>Increase over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the beginning of 1st Plan</td>
<td>5</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>do II Plan</td>
<td>21</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>do III Plan</td>
<td>48</td>
<td>9,53</td>
</tr>
<tr>
<td>At the end of III Plan</td>
<td>74</td>
<td>24,15</td>
<td>-</td>
</tr>
<tr>
<td>1966-67</td>
<td>77</td>
<td>28,41</td>
<td>-</td>
</tr>
<tr>
<td>1967-68</td>
<td>83</td>
<td>33,33</td>
<td>-</td>
</tr>
<tr>
<td>At the beginning of IV Plan</td>
<td>85</td>
<td>39,02</td>
<td>-</td>
</tr>
<tr>
<td>1969-70</td>
<td>91</td>
<td>43,01</td>
<td>-</td>
</tr>
<tr>
<td>1970-71</td>
<td>97</td>
<td>46,82</td>
<td>-</td>
</tr>
<tr>
<td>1971-72</td>
<td>101</td>
<td>50,52</td>
<td>-</td>
</tr>
<tr>
<td>1972-73</td>
<td>113</td>
<td>55,72</td>
<td>10.3</td>
</tr>
<tr>
<td>1973-74</td>
<td>122</td>
<td>6,237</td>
<td>12.0</td>
</tr>
<tr>
<td>1974-75</td>
<td>129</td>
<td>7,261</td>
<td>16.4</td>
</tr>
<tr>
<td>1975-76</td>
<td>129</td>
<td>8,973</td>
<td>23.5</td>
</tr>
<tr>
<td>1976-77</td>
<td>145</td>
<td>11,097</td>
<td>23.7</td>
</tr>
</tbody>
</table>

Thus, at the beginning of the I Plan, there were only 5 undertakings and the average investment capacity of each of them stood at Rs. 58 million. Whereas at the end of the period 1972-73, the number of public undertakings went up to 113 and average investment of an undertaking was Rs. 493 million. During the last quarter century, the public sector registered substantial growth. It is evident that the growth of the public sector slackened during 1967-68 and 1968-69 when there was a virtual plan holiday and a tirade was let loose against the basic and heavy industries which were blamed for inflationary pressures. As on March 31, 1977 there were 145 Central Government undertakings, excluding banks, financial institutions and departmental undertakings, like the railways, ports, etc. The investment is in the form of equity capital and long-term loans. Bulk of the investments has come from the Central Government, though in some of the undertakings, the State Governments have participated in the equity capital.

The place given to the public sector in economic development in India can best be testified by the amount of investment provided in the Five Year Plans as shown below:
### Investment in Indian Economy

<table>
<thead>
<tr>
<th>Period</th>
<th>Investment (in crores of Rupees)</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Plan (1951-56)</td>
<td>1560 (46.4%)</td>
<td>1800 (53.6%)</td>
<td>3360 (100%)</td>
<td></td>
</tr>
<tr>
<td>II Plan (1956-61)</td>
<td>3650 (54.1%)</td>
<td>3100 (45.9%)</td>
<td>6750 (100%)</td>
<td></td>
</tr>
<tr>
<td>III Plan (1961-66)</td>
<td>6300 (60%)</td>
<td>4100 (40%)</td>
<td>10400 (100%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11510 (56.1%)</strong></td>
<td><strong>9000 (43.9%)</strong></td>
<td><strong>20510 (100%)</strong></td>
<td></td>
</tr>
<tr>
<td>IV Plan</td>
<td>13655 (60.4%)</td>
<td>8980 (39.6%)</td>
<td>22635 (100%)</td>
<td></td>
</tr>
<tr>
<td>(1969-74)</td>
<td>(Envisaged)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V Plan</td>
<td>31400 (66.0%)</td>
<td>16161 (34.0%)</td>
<td>47561 (100%)</td>
<td></td>
</tr>
<tr>
<td>(1974-79)</td>
<td>(Envisaged)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is evident from the table that there is an increasing volume of investment in the public sector from the 1st Plan and onwards. In the 1st Plan investment in the public sector accounted for

Rs. 1560 crores. This was 46.4% of total investment. In contrast to this, investment in the private sector amounted to Rs. 1800 and in percentage terms it was 53.6% during the same period. Thus, the private sector was given the upperhand during the I plan period. But in the later plans, the sphere of public sector continuously increased and the sphere of private sector decreased.

The most significant benefit flowing from this phenomenon of expanding public sector, in the context of the economic system as a whole, is the additional power it has endowed upon the system for absorbing the employable human resources lying idle in the society. It is frightening to imagine the magnitude of the problem of unemployment in the country in the absence of the public sector enterprises. According to the annual report of the Labour Ministry, the total public sector employment rose from 11.305 million at the end of March, 1972 to 11.881 million at the end of March, 1973. The public sector achieved a 5.1% growth rate of employment opportunities while in the private sector it was only 2.5% in 1972-73 and in 1971-72 it was only 0.1%. If we take only public sector undertakings the employment opportunities have been generated at the rate of 6 to 8% per year. According to official figures
employment in the public sector's mining and manufacturing industries and in construction increased threefold between 1956 and 1972 i.e. from 6,75,000 to 20,40,000. The operation of public sector enterprises at full capacity and their entry into new fields can help a great deal in relieving unemployment in the country.\(^{15}\)

The Industrial Policy Resolution, 1948 enunciated a policy of fair working conditions for the workers as an essential basis for harmonious relations between management and labour. The Government recognised that for securing maximum increase in production, it is essential to ensure fullest co-operation between labour and management and this could be achieved by reducing the area of conflict. The 1956 Resolution recognised the necessity of providing amenities and incentives for all those engaged in industry. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm and for this the maintenance of industrial peace is one of essential conditions. It stresses that the living and working conditions of workers should be improved and their

\(^{15}\) Commerce Year-Book of Public Enterprises, 1972.
standard of efficiency raised. The resolution expects that the enterprises in the public sector will set up an example in this respect.

Secondly, the public sector accelerates the pace of development (industrial) in the country by providing a strong infrastructure and also it helps diversify industrial production within the country. It has helped eliminate to a large extent the shortage of such important products as iron & steel, petroleum products, heavy equipment, machine tools, fertilisers, etc. and has reduced the dependence on imports of those commodities and saves a lot of foreign exchange. For example, for the construction of Bokaro Steel Plant about 63% of the mechanical equipment, 85% of Steel structure and 96% of refractory materials came mainly from the public sector enterprises.

It is chiefly because of the public sector steel plants that the total production of finished steel in India has gone up from a meagre 1 million tonnes to 6 million tonnes and the production of pig iron from 1.5 million tonnes to 7.5 million tonnes.

The value of the output of machine tools has increased by more than 200 times. In this regard, contribution of
Hindustan Machine Tools (HMT) is impressive. In 1956 India imported machine tools worth Rs. 83.61 million. At that time, the total production of machine tools in the country was valued at Rs. 10.78 million and the contribution of H.M.T. to the indigenous production was only Rs. 3.09 million or around 28.66%. In 1970 machine tools worth Rs. 183 million were imported and the domestic production was of the order of Rs. 372.3 million in which the H.M.T.'s share was around 40.61%.

The Mining and Allied Machinery Corporation Ltd. has diversified its production and taken up manufacture of material handling equipment for the ports and for the Steel Plants, Power, and Fertiliser Industry. The company undertook to supply conveyors, stackers, reclaimers, pumps, etc. for the construction of the first phase of the Bokaro Steel Plant.

The Bharat Heavy Electricals Ltd. has now started production of some of the sophisticated machinery produced only in a few advanced countries of the world. It has contributed to the development of self-reliance by developing manufacturing skill in the country for such power equipment
and building design and engineering capabilities. The BHEL has supplied industrial boilers to a number of plants in the country. It has saved huge amount of foreign exchange. According to a report published in 1973 the company's production of hydroelectric stations resulted in the saving of Rs. 280 crores in foreign exchange which could otherwise have been spent on import.

In the matter of production and distribution of fertilisers, the Fertiliser Corporation of India has played a very important role. The corporation has achieved significant progress in the spheres of research, process design, detailed engineering in mechanical, electrical and civil, and instrumentation, fabrication techniques and execution and commissioning of fertiliser plants. The F.C.I. has also engaged itself in fertiliser demonstration in the farmer's field, soil testing services, etc.

Next we may turn our attention to the contribution of the public sector to the development of agriculture. We can point to the efforts of the public enterprises to provide irrigation facilities, power, diesel and fertilisers. The State Farms Corporation and the National Seeds Corporation
have been supplying improved and high-yielding varieties of seeds. Besides, the State Farms Corporation is engaged in the reclamation and development of land. Already there are 13 State Farms in existence.

Not only the production of goods but their storage is equally important. In India storage is a big problem. The Central Warehousing Corporation which has solved only 5% of the problem has nonetheless minimised the loss of foodgrains to the extent of Rs. 8 crore per annum. The Corporation has offered grading facilities. It has also started disinfection service.

The State Trading Corporation has done commendable work in promoting India's external trade and increasing the export of the Indian handicrafts. It has undertaken propaganda and market research to promote the sale of Indian goods abroad.

Finally, the effects on the overall pattern of our economic system are no less important. The public sector has contributed a lot towards lessening the regional imbalances and as a result of this it has furthered the cause of
national integration. Whatever industrial units have been actually set up in backward areas are mainly in the public sector. Take for example the Bhilai Steel Plant, the Barauni Refinery and Fertiliser Corporation’s Gorakhpur Plant as samples.

Apart from these gross accretions to the national welfare, the systemic implications of the public sector may be examined with reference to three general criteria:

(a) its wealth-yielding capacity, i.e. profitability,
(b) its social responsibility i.e. accountability,
(c) its effect on resource allocation through a sound pricing policy.

Coming to the commercial and entrepreneurial viability of the public sector, it is noticed that in India till 1971-72 the public sector enterprises did not earn any profit but since 1972-73 the situation has changed. In that period out of 101 running enterprises 67 units earned a net profit of Rs. 1044.6 million and 34 suffered a net loss of Rs. 867.2 million. Thus, they earned a net profit of Rs. 177.4 million. The fact that the public sector enterprises earned a net profit was not just an accident. Actually it marked the beginning of an era. In 1973-74, they earned around Rs. 665 million
as net profit. The average rate of return on total capital came to 6.5%. The contribution of the public sector becomes much higher if an estimated amount of Rs. 705 million for the payment and a provision of Rs. 1265 million for interest payments are also taken into account. According to the Director-General of the Bureau of Public Enterprises the net profit after the payment of taxes may be around Rs. 2000 million in 1974-75. If this trend of rising profitability of public sector undertakings continues they will soon achieve the target of 10% return on the total capital employed. 16

**Accountability of the Public Enterprises:**

Public accountability is necessary for any socialised enterprise worth the name. Efficiency of a public enterprise is not always considered from the economic indicators (i.e. profit-maximisation or loss minimisation factors, etc.) but it is measured by social phenomenon. They are expected to serve the greater social objectives. That is to say,

"this principle means that the public must have the final word in the control of the industries it owns". 17 "The central feature of public accountability is often described as parliamentary control. This is based on the assumption that parliament is the true representative of public opinion, that it is sovereign and has the final say in all matters." 18 Parliamentary inquisition is concomitant with the public corporation and in a democratic society both the legislative and the public corporation have the duty and responsibility to each other, which are appropriately termed as 'Parliamentary Control' and 'accountability'. 19

Thus, it follows that accountability of public corporations is highly essential in our country. But a controversy arises as to the degree of accountability.


Accountability is just the one side of the coin. One should consider also the other side, that is, 'the degree of freedom'. Too much parliamentary probing would sap the boldness of management, which may prove inimical to a public undertaking. There are lines of thoughts. On the one hand, it is argued that since public undertakings are 'public' in nature therefore they are to be more accountable. Even day-to-day workings are not exempted from such accountability. But the other viewpoint is that the public undertakings should run efficiently and this necessitates a high degree of freedom in their operations. Parliament has an unfettered right to question and discuss on policy matters but not so about normal administration.

A public corporation is brought into existence by a specific statute of parliament. The extent of accountability of the public companies in India is practised in this way: Firstly, house's grant for financial requirement is necessary whenever a new company is formed. Secondly, annual records of the companies, with their balance sheet, profit & loss accounts and a review by the Comptroller & Auditor General are placed on the table of the House. Thirdly, reports & reviews also come under the scrutiny of the Public Accounts Committee.
At present, the Ministers-in-Charge of the Departments administering State undertakings have been answering a large variety of questions in Parliament. Some of these fall within the scope of ministerial responsibility.\textsuperscript{20} Upto the end of 1953 it was strongly urged that while ordinary Departments were fully accountable to Parliament and Public Corporations were accountable within the limits of incorporating legislations, Government companies (for the most part) fell outside the periphery of public accountability. The myth that Government companies can maintain secrecy about their working was finally exploded in 1956 when the new Companies Act made special provisions regarding the preparation of accounts, audit and presentation of annual reports to Parliament in respect of Government companies. Since 1956, as parliamentary control is concerned, no distinction is made between public corporations and Government companies. However, Government companies can be registered without prior approval of parliament, whereas public corporations are established after parliamentary legislation.

There are various agencies of Parliament that can probe into the activities of the public corporations to assess the results of their working. At present, the Estimates Committee of the Lok Sabha and the Public Accounts Committee examine the various aspects of the public enterprises. The reports of the Estimates Committee are claimed to "bear testimony to the thoroughness with which it examined the working of the undertakings, pointed out organisational, financial and operational defects wherever they were noticed and suggested improvements".\textsuperscript{21} These Committees in their expost facto examination of the financial results also contribute to the ammunition of Parliamentary weapons by citing examples at random of abuses and wastes of the public enterprises.

In May 1964, a Joint Committee of both Houses of the Parliament -- the Committee on Public Undertakings -- took over the exercise of the "functions vested in the Committee

on public accounts and the Committee on Estimates in relation to public undertakings. Subsequent amendments provided that the tenure of this Committee would be on an annual basis from 1967 onwards. The terms of reference of the Committee provide that the Committee shall -

a) examine the reports & accounts of the public undertakings;

b) examine the reports, if any, of the Comptroller and Auditor General on public undertakings;

c) examine in the context of autonomy and efficiency of public undertakings whether the affairs of these are being managed with sound business principles and prudent commercial practices;

d) exercise such other functions vested in the Committee on public accounts and the Committee on estimates as may be allotted to the Committee by the Speaker from time to time.

It has been further provided that the Committee shall not investigate the following: -

i) matters of major Government policy as distinct from business or commercial functions of the public undertakings;
ii) matters of day-to-day administration; and

iii) matters for the consideration of which machinery is established by any special statute under which a particular undertaking is established.

On an average, the Committee submitted more than twenty four reports of which nineteen were original. It is evident that the Committee have rendered valuable service and have been the principal instrument in securing effective accountability of public undertakings to Parliament. They have been acclaimed by Parliament, by the Press and by the general public. 22

A glance at the terms of reference of the Committee indicates, however, that the actual scope of examination by the Committee is limited. Its coverage is limited in the organisations like the Reserve Bank of India, State Bank, the Khadi & Village Industries Commission, etc. The examination of the programmes of the mixed corporations are outside its purview. The Committee's examination of these undertakings is ex post facto.

Several defects are noticed in the annual reports of the public undertakings. The reports & accounts follow no prescribed form. The reports and accounts are printed but they are not available to the general public. The expert scrutiny of industrialists, businessmen, bankers and economists on Balance Sheet or Profit & Loss statements are thus lacking. Not all members of Parliament are in a position to study and grasp these technical details of accounts unaided. As there are so many undertakings, it is even unlikely that the members will find time to study them. There is no provision made in the Rules of Business for debate of these reports and consequently they do not receive any impartial, careful or thorough scrutiny in Parliament. It should be noted that accountability is not a matter of rendering accounts or submitting reports. Moreover, the reports are in the nature of glorification of achievements and a gloss over the working of the corporation. A public corporation has the constitutional and moral responsibility to make honest reports about the working of the corporation, and should on no account conceal mistake.

"There has been no study of the nature and extent of control that the ministry exercises or ought to exercise
over these undertakings ............ There are no clear guidelines and the position is unsatisfactory". 23

As pointed out earlier, the accountability of public undertakings to Parliament arises from their social objectives. They are not set up so as to compete with private enterprises or merely to earn profits. They are the results of social and economic policy. "They are a sequel to the new rule of the State as planner, regulator and divider of the National Product". They have many obligations viz., obligation to the State as the owner of its equity and as the banker of its loans, obligation to employees, consumers, suppliers, distributors, to the community where they operate and to the nation at large.

There is a crying need for 'autonomy' of these undertakings. But, as is went, autonomy does not mean less accountability but more.

**Price Policies:**

The Government of India has issued three guidelines on pricing policies for the public sector enterprises. These are as follows:

a) Public enterprises in order to show efficiency should increase profitability;

23. Ibid.
b) Public enterprises which are to compete with private enterprises should follow a price determined by market forces;

c) Enterprises operating under monopolistic and semi-monopolistic conditions, the pricing should be within the landed cost of comparable imported goods which would be normal ceiling.

Thus it seems that there is no precise and uniform policy of pricing on the part of the public undertakings. Each undertaking has been following a price policy conditioned by certain internal and external circumstances. As for example, some of the enterprises generally follow a profit policy, viz., Railways, Reserve Bank of India, Sindri Fertilisers, Hindusthan Antibiotics, Hindusthan Machine Tools, etc. while others follow a 'no profit no loss' policy, viz., Hindusthan Insecticides. Some enterprises are expected to incur losses because of social, political or other considerations. The Life Insurance Corporation (LIC) adopted a policy of price reduction (lowering premium rates) to popularise it and also to show the superiority of a Government corporation in running an industry which was formerly controlled by private entrepreneurs. On the other hand, a few enterprises whose products are in direct competition with imported goods have adhered to
a policy of import-parity prices, viz., Hindusthan Shipyards Ltd.

Although there is no specific price policy pursued by public enterprises, it is clear that most of them stick to the profitability criterion which is also the intention of the Government. The expanding public sector in India can play an important role in financing future economic development. According to Prof. Galbraith, a country which accepts socialism as a means of ensuring rapid economic growth must organise the public sector to own and run basic industrial enterprises so as to create the maximum possible 'surpluses' which would be used to finance their expansion or new productive enterprises. The need to tap all possible means of mobilising resources calls for running the public enterprises on profit motives.

In his note submitted to the A.I.C.C. at the Ooty seminar, Dr. V.K.R.V. Rao also argued in favour of profit policy of public enterprises. According to him, public enterprises must be carried on a profit making basis in the

sense that they must not only yield an economic price, but also get for the community sufficient resources for financing a part of the investment and maintenance expenditure of the Government. The public sector must possess sufficient amount of resources by which more and more investment can be made by the State so as to achieve its socialistic goal. The case for earning profit is especially strong in under-developed countries like India where capital formation is abnormally low and where the normal tax and resources prove inadequate for achieving the desired rate of growth.

The suggestion made by Dr. V.K.R.V. Rao was accepted by the Planning Commission and endorsed at the Nagpur Session of the Congress in a resolution which stated that the public enterprises and State trading should be conducted so as to yield additional resources for public purposes. The Taxation Enquiry Commission also stated that the State should not regard itself as being precluded from using its monopolistic and semi-monopolistic power to secure larger revenues.

Let us now consider how far the profit making policy of public enterprises conforms to an economic ideal which is
wed to the norms of socialist pattern of society. The following questions may be asked in this respect:

(i) If the public sector enterprises are treated as profit making concerns then what is the basic difference between a private enterprise and a public enterprise. It appears that the difference lies only in Ownership. But is that sufficient justification for State encroachment into the economic sphere?

(ii) The resource mobilisation argument is also vague. Why should the Government mobilise resources through public undertakings only? In any case the private undertakings may well earn a lot of profits and by ploughing this profit back, investment in future period may be increased many times. If investment increases then there will be a chain increase (through the operation of multiplier) in the income, employment and production of the society. In this way, resource mobilisation might take place.

(iii) It may be argued that in the absence of public enterprises, private enterprises would not go to produce in the key and heavy industries because of long gestation period,
huge amount of investment and much apprehension of losses. This is no doubt true. But what is the case with the public enterprises? In their anxiety to appear business-worthy, they also have started following the line of minimum risk—maximum return in several areas. But is not profit earned by most of these enterprises another name for an extra price rise over the cost of production?

(iv) Public undertakings not only produce industrial goods but also consumers' goods. If profit making policy is allowed to continue in the consumers' goods sector, then there will be an increase in the burden on the consumers as a whole. But just think of the low purchasing power of the majority of consumers in our country. An increase in profit margin achieved through administered price hike such as happened recently (1981) in the case of coal, oil and gas must have deprived a large section of the consumers of their purchasing power and ultimately led to discriminatory allocation of essential goods in favour of the better-off people.

It should be clear then that the net effect of the 'socialistic' policies of the Government based on the philosophy of the mixed economy and operated through the instrumentality of an expanding public sector has been
strangely in the direction of building a state-controlled economy that hardly makes sense in the context of socialist transformation.

The state of affairs discussed in the foregoing sections therefore, raises the question: was this the kind of socialism for which the present Constitution is known to have provided a lot of guidance and sanction which were further reinforced by amendments adopted from time to time? Or did the whole venture falter on the rocks of ill-designed public policies? A complete answer cannot be given, unless one is thoroughly satisfied that there was no other impediment arising from the Constitution or its interpretation. Such a road-block, one is often told, is constituted by judicial opposition to a free hand of the Government to implement socialist policies in this country. This aspect of the question will be taken up in the Chapter that follows.