PART I

CHAPTER I

EVOLUTION OF PUBLIC ENTERPRISES IN THE WEST & THE EAST

The U.K.
France
Italy
Sweden
Australia
U.S.A.
Japan
Philippines
U.S.S.R.
Yugoslavia
India

-- Post-Independence Period

-- Gujarat
EVOLUTION OF PUBLIC ENTERPRISES IN THE WEST AND THE EAST

The interactions of the political, religious, cultural, social and economic forces of change over the centuries of human generation and regeneration since the dawn of earliest civilisation have given birth to a variety of organisational patterns from time to time. 'Public enterprise' can probably be considered as the latest specie in the structural advance. The transition from feudalism to capitalism and the rapid expansion of private enterprise over a vast economic expanse in the world had to be accompanied by the superimposition of the joint-stock company form over the sole proprietary and the partnership firm forms. In course of time a few features of private enterprise stood out prominently on the arena of economic growth. Relative profitability was the basic criterion for the foundation of capitalistic undertakings. As a consequence, even if unwittingly, the country's scarce resources got used in a lopsided manner. It were the quick-yielding consumers' goods industries that got concentrated upon with the result that basic and key industries and other equally important concomittants of the infrastructure stood neglected. The onslaught of organised large scale manufacturing and distributive establishments proved to be serious to the numerous small producers with a wide geographical dispersal. Unorganised
and scattered consumers felt the pinpricks and pangs of price and quality exploitation extending often to outright cheating. The growth of private monopolies brought with it their own evils. Labour as a factor of production was found to be too weak vis-a-vis the employers to secure its fair share in the gross product. All these resulted in certain major -- philosophical as well as actual -- developments in the industrially advanced countries, at first, and the developing countries, later. Karl Marx, Fredric Engels, their compeers and followers came out with the philosophy aiming at the ultimate establishment of a classless State through the primary stage of a class-war with a view to establishing the supremacy of the proletariat, the state owning and controlling all means of production. Within the framework of the capitalist system, state legislation and social measures for the amelioration of the working and the living conditions of the workers got proliferated in size, variety and impact. The cooperative movement got initiated in various areas of economic management. The state itself began to penetrate in selected manufacturing and commercial activities through direct ownership and control of organisations which it founded. These last ones have been known as Public enterprises. Of course their structural and operational designs have remained spatial and timous and have witnessed occasional metamorphoses. But the primary undercurrent has, still over decades, been universal. A study
of the public enterprises in a few important countries in the world shows a conceptual dynamicity, width and depth.

The U.K.:

The evolution of public enterprises in some of the western countries dates back to the 19th century, though it was just a beginning and not much progress could be made in that direction then. Towards the end of the century there grew up in Britain — born out of the conflicts of the industrial revolution, the trade union movement, the cooperative movement, the factory laws and a whole complex of other conditions — a thesis which forcefully expressed itself through a new forum, the Fabian Society. The Fabians were in favour of the government running productive industrial enterprises.¹ This tempo of 'public ownership' was given a great fillip by Sydney and Beatrice Webb through their great works 'Socialism in England' and 'Industrial Democracy'.² In the original preface to the 'Fabian Essays' published in 1889, Bernard Shaw had asked for 'vesting the organisation of industry and the material of production in a State identified with the whole people by complete Democracy'.³ The process of state intervention in the matter of production and ownership of certain industries— through

². Published in 1890 and 1897 respectively.
a complete take-over, popularly termed as 'nationalisation',
or partial take-over through capital participation —
gathered momentum only fifty years after the Fabians and
other protagonists had advocated it. It was not the indus­
trial field where the state-participation had begun initia­
larly; the first to be selected for the purpose were the
public utilities. Thus, Post Offices in England were na­
tionalised as early as in 1912. The Port of London Autho­
rity was constituted by an Act of the Liberal Government
passed in 1906. Between the two World Wars, i.e. in a
period of twenty years, the Conservative governments in
England had set up the Central Electricity Board, the
British Broadcasting Corporation, the London Passenger
Transport Board and the British Overseas Airways. It is
interesting to note that all these nationalisations were
undertaken by non-socialist and/or anti-socialist govern­
ments.

With the Labour coming to power after the Second World
War, the process of nationalisation was speeded up. Eight
Nationalisation Acts were seen through the Parliament over
a period of five years from March 1946; the Bank of England
was the first to be nationalised and the iron and steel
industry was the last one. Coal mines were brought under
public control and ownership in January 1947. In the same

4. Hanson A.H. (Ed.): Nationalisation - A Book of Readings
   (1963); pp.11-12.
year, the British Transport Commission was established to nationalise the railways, and the generation and distribution of electricity through Area Electricity Boards was handed over to a newly created body -- the British Electricity Authority. Gas was next to be nationalised in 1948 and the Gas Council was set up. It would, however, be wrong to give full credit for all these nationalisations to the Labour Government. 'Many of the services nationalised between 1945 and 1950 were already partly under municipal control, such as gas and electricity, or administered by trusts of a public kind, such as harbours. Railways had become increasingly subject to public regulation, while the coal industry, undercapitalized and bedevilled by bad labour relations, demanded a 'rescue operation' which no government of whatever political complexion could have afforded not to undertake.' And, despite all the nationalisation that has taken place, the United Kingdom is still a long way from the 'common ownership of the means of production, distribution and exchange' which still remains the official objective of the Labour Party.

This is substantiated by Table I.1 which picturises a historical view of nationalisation since its introduction in U.K. until 1969.

5. Ibid.
<table>
<thead>
<tr>
<th>Body</th>
<th>Vesting/Commencing date</th>
</tr>
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<tbody>
<tr>
<td>1. Central Electricity Board</td>
<td>1927; absorbed by British Electricity Authority, 1948.</td>
</tr>
<tr>
<td>3. British Overseas Airways Corporation</td>
<td>1940; did not begin operating as a commercial enterprise until 1 April 1946.</td>
</tr>
<tr>
<td>4. North of Scotland Hydro-Electric Board</td>
<td>1943</td>
</tr>
<tr>
<td>5. British South American Airways Corpora-</td>
<td>1st August 1946; absorbed by BOAC 1 August 1949.</td>
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<td>tion</td>
<td></td>
</tr>
<tr>
<td>6. British European Airways Corporation</td>
<td>1 August 1946.</td>
</tr>
<tr>
<td>9. British Electricity Authority and Area</td>
<td>1 April 1948; British Electricity Authority; dissolved 1 April 1958.</td>
</tr>
<tr>
<td>Electricity Boards</td>
<td></td>
</tr>
<tr>
<td>into Central Electricity Authority and South Scotland Electricity Board</td>
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<table>
<thead>
<tr>
<th>Body</th>
<th>Vesting/Commencing date</th>
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<tbody>
<tr>
<td>Authority divided</td>
<td></td>
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<tr>
<td>into Electricity Council and Central Elec-</td>
<td></td>
</tr>
<tr>
<td>tricity Generating Board</td>
<td></td>
</tr>
<tr>
<td>into British Railways Board</td>
<td></td>
</tr>
<tr>
<td>London Transport Board</td>
<td>Transferred to Greater</td>
</tr>
<tr>
<td></td>
<td>London Council</td>
</tr>
<tr>
<td></td>
<td>1 January 1969.</td>
</tr>
<tr>
<td>British Transport Docks Board</td>
<td></td>
</tr>
<tr>
<td>British Waterways Board</td>
<td></td>
</tr>
<tr>
<td>Transport Holding Company</td>
<td></td>
</tr>
<tr>
<td>into:</td>
<td></td>
</tr>
<tr>
<td>National Bus Company</td>
<td></td>
</tr>
<tr>
<td>Scottish Transport Group</td>
<td></td>
</tr>
<tr>
<td>National Freight Corporation</td>
<td></td>
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</tbody>
</table>

"Post Office" has not been included in Table I.1 as it has only just ceased to be a Government Department and the Steel industry, which though nationalised in 1951 was afterwards largely denationalised and was not renationalised until 1967. However, it seems that the steel was renationalised during the same year.

8. Ibid.: p. 10.
9. Dr. Laxmi Narain in an article on 'Top Management (contd... )
It may be interesting to examine the size and importance of the different nationalised industries. This can best be judged in terms of their contribution to domestic production. The air corporations accounted in 1966 for 90% of the revenue which U.K. airlines received from scheduled services. In 1967 the nationalised buses collected 37% of all public road passenger transport receipts. The public sector heavyweights engage in a number of activities outside their own industries. British Railways, for instance run hotels, and shipping services while the National Coal Board owns chemical works and makes bricks.

(continued...)

Organisation of the British Steel Corporation writes "... The nationalisation of the steel industry in 1951 and the subsequent denationalisation was the result of a doctrinaire approach of the two different governments. When the denationalisation took place, the Labour Party made it a part of its manifesto that iron and steel industry would be renationalised when it went into power. And this happened in 1967, when steel was renationalised and a statutory corporation -- The British Steel Corporation -- acquired shares and stocks on a 100% basis in 13 major iron and steel manufacturing companies and through them in 155 subsidiaries within the country and 48 subsidiaries abroad.... The responsibility of planning and reorganisation was left to the Corporation itself, which came into existence on 27 April 1967. The vesting date, that is, the date of transfer to the corporation of the 13 major steel companies, was 28th July 1967.*

And still, the public enterprise sector in U.K. not only forms a relatively small part of the economy but its domestic output has been declining and its production has been increasing less rapidly than that of the rest of the economy. In 1950-58 it accounted for 8.2% of the GDP, but by 1967 the proportion was down to 7.3% and is likely to go on falling. Again, between 1948 and 1968 manufacturing production about doubled and GDP rose by around 70% but the output of the nationalised industries increased by only 35%. 10

Though this is true, it would be wrong to blame the public enterprise solely for such a poor performance. Political ideologies and changes in the ruling party does have contributed to this. It may not be an exaggeration to say that nationalisation has been made a sort of a 'shuttle-cock' between the Labour and Conservatives. This has been stretched to such an extent that the latter, under the pretext of freeing the public from the government control, handed over some profitable pockets of nationalised industries to private sector. For example, a Committee was set up by the Government in Britain, to examine the possibility of transferring certain areas of operations of the National Coal Board. A similar attempt was under way for the steel industry, British Broadcasting Corporation and gas industry.

It had already decided to handover certain routes of BOAC to privately owned company.  

FRANCE:

The economic history of France reveals that state ownership and operation of industry on a smaller scale dates back to the 15th Century. Colbert, the Finance Minister of Louis XIV was responsible for some of the royal manufacturing operations that still continue today like the production of Gobelin and Beauvais tapestries and of Serves porcelain. The creation of a state monopoly on the processing and sale of tobacco goes back to the mercantilist period of the First Empire. The CGT (General Confederation of Labour) asserted as early as 1918 the nation's right to the ownership of the collective wealth and the means of production and exchange. This demand for nationalisation was again made in clear terms in 1936, both by CGT and CFTC (French Confederation of Christian Workers). In France, thus, it were the trade unions that played a prominent part in the process of bringing about a speedier nationalisation. This was largely due to the fact that they were represented on a number of national advisory bodies like National Employment Advisory Committee and Economic Council. The process of nationalisation also got accelerated due to

another important reason. 'In the imagination of politicians and statesmen, scholars and propagandists, nationalization became the touchstone of the new morality and the new democracy, the chief test of the redemption of French political life from the sins of the past. Nationalisation was to break monopoly, to punish the traitors and collaborators, to achieve industrial democracy, to produce abundance and prosperity for all. This found expression in the policies of the National Council of Resistance which, "... because of the necessity of giving social significance to the liberation of the country and because of the preponderance of the left-wing elements, recommended the return to the nation of the great monopolies of the means of production, the fruits of common labor, the sources of energy, the mineral wealth, the insurance companies and the banks." General de Gaulle had announced, at Aligiers, on March 18, 1944, that France would erect "an economic system designed to develop and improve the national resources and not for the profit of social interests; one in which the great sources of common wealth would belong to the Nation". Consequently, the movement towards nationalisation gathered momentum. Coal was first to be nationalised in 1944, followed by the Bank of France and the four main commercial banks.

Electricity, Gas and Insurance Companies were nationalised in April 1946. The State also continued to participate in enterprises engaged in diverse activities such as mining for ore, motion-picture production, broadcasting, news-agencies, petroleum production and distribution, chemical manufacture, the merchant marine and river navigation. Thus, within a short span of two years -- 1944 to 1946 -- various Nationalisation Acts were passed and the industries were transferred to public ownership.

France has not to face a problem similar to that of U.K. On the contrary a consolidation movement seems to have given further strength to the public ownership. According to Professor C. Kindleberger of the Massachusetts Institute of Technology "The public corporation especially in railroads, aviation and electricity, have been among the leaders in increasing efficiency and improving technology."\(^\text{15}\)

John Sheahan pays tribute to the French nationalised industries by saying "Indeed the French nationalised industries have in many ways led the rest of the world in the sophistication of their investment appraisal and system of pricing."\(^\text{16}\)

ITALY:

Nationalisation in Italy had sprouted in altogether different circumstances. It was adopted primarily as a

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16. Ibid.
rescue operation. This is evident from the fact that the Institute of Industrial Reconstruction was established in 1933 as a result of a financial crisis affecting some of the leading industrial and financial corporations of the country. It was granted the power of taking over the industrial assets of banks and restoring to them liquidity needed to face the timid and tiny depositors. The Institute was also authorised to issue bonds in order to obtain the funds necessary for carrying out the large scale operations it had assumed. It was through this Institute that the state started (a) getting control over the industries through financial investments, and (b) remodelling the entire economic structure. One significant observation needs to be made here about the nationalisation movement in Italy — despite the nationalisation of a Unit, the state did not disturb the existing management. Fascism adopted a quasi-private concept of nationalisation, relying to a very large extent on the old managerial class and, in some instances, admitted continued private participation in stock-ownership. By 1936 the initial phase of the most unplanned nationalisation of industry in the western world was concluded as fascism entered its phase of aggressive expansion overseas. 17 IRI then became a principal economic arm of the Fascist regime.

IRI underwent some important changes as Italian fascism gave way to democracy after the Second World War. The Cabinet was identified as the controlling policy-making body to which was entrusted the task of establishing IRI's policies in the public interest. The number of members of its Board of Directors was increased from 9 to 13. The General Manager of IRI was no longer to be appointed by its President but, upon his recommendation, by the Prime Minister. It was, however, permitted to retain a legal structure to allow it to operate as an ordinary joint stock corporation.

With the end of the War in 1945, reconstruction and reconversion of the industrial plants of IRI might very well have been preceded by some careful planning of the outlines of future policy. The problems to be clarified included the fixing of the goals to be reached by the publicly managed industry, the establishment of a boundary line between private and public industrial activities, the reorganisation under uniform management of all economic activities of the state which were then managed in a confused fashion by both IRI and many other government departments, the selection of the organisational forms best suited to the efficient economic management of what was to be retained by the state, and the selection of an efficient and competent body of managers. But the Italian governments were confronted with such urgent international and national domestic difficulties
that no coherent plan was laid down for the functioning of IRI. A number of coalition governments including that of the Communists reigned Italy until June 1947, and thereafter Communism retained a preponderate influence among large strata of the population and a dominant one upon trade unions. Most of the governments had to devote their energies and time to the immediate problems of distribution of food-stuffs and control of unemployment rather than to the planning a long-range reorganisation and recovery programmes. On the whole, looking to the man-power employed and the productive capacity owned, IRI enjoyed a dominant position in all spheres except engineering. It played a vital role in the field of banking credit where it had a decisive voice. Thus, at the end of 1962, it had a total labour force of 2,88,000.\textsuperscript{18}

It may be interesting to note that IRI now controls about 130 firms engages in activities such as banking, mining, shipbuilding, merchant shipping, chemical, telephone services, airlines, radio and television services, civil engineering, and the manufacture of products such as motor vehicles, industrial equipment and so on.\textsuperscript{19}

Again, there were large economic assets outside IRI.

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Italian railroads were nationalised at the beginning of the century and were run by an independent public corporation. All long-distance telephone lines and telegraph lines were government-owned and were separately managed. The state had a tobacco monopoly. All coal mines as well as a steel plant were owned and managed by the State. 60% of the natural gas production and refining of about 25% of imported crude oil was managed through the General Italian Petroleum Corporation. The Government also shared with Standard Oil of New Jersey the refining of another 25% of imported crude oil. The Public Domain had also virtual control over all domestic and international air lines. It also controlled the production of quicksilver; it had substantial interest in film industry, in hotels and in another smaller activities that are too numerous to mention.

New agencies were being formed outside IRI, thus creating rival centres of government economic power. ENI (Ente Nazionale Idrocarburi) was brought into being in 1955 to look after the management and control of the industries in the field of natural gas, oil production and refining, and pipeline transportation. The Italian Government itself owned and managed a large number of industrial and commercial undertakings including railways, steel plants, mines, chemicals, textiles, nuclear energy and engineering

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The control and supervision of those undertakings was exercised through the creation of 'Enti autonomi di gestione'. At the same time, the Government made a uniform legal structure of all concerns under its control by transforming the 'patrimonial enterprises' into public companies, so enabling them to appeal directly to the market.

Three main sectors were marked out in May, 1958 by the creation of three Enti di gestione: 21 (1) The mining concerns controlled by the ministry were the Societa Nazionale Cogne in the Ville d'Aosta, mining iron ore producing steel; Carbosarda in Sardinia, extracting coal and using it for purposes of electricity generation; and AMMI (Azienda Minerali Metallici Italiana), a "patrimonial enterprise" mining lead and zinc. In July 1959 AMMI was transformed into a public company with the share capital taken up by the State, INPS, INA (State insurance) and the Banco di Napoli. The ente di gestione never became operative and both the Societa Cogne and Carbosarda continued to receive subsidies from the Ministry and also the Treasury. (2) All spas (aziende termali) were grouped together under an ente di gestione but until July 1959 the ministry continue to run and subsidise them. Between 1959 and 1960 the ente di gestione was finally given an endowment and control over the

spas. As most of these were "patrimonial enterprises" they were transformed into public companies in May 1961, with the ministry subscribing all the shares and capital.

(3) The ente di gestione per il cinema was created in May 1958 to run the two existent companies. The ente, however, only received an endowment and possession of its patrimony in 1961-62.

The Fondo per l'Industria Meccanica (FIM), created in 1947, was reshaped in accordance with ministerial policy in 1962. A new ente di gestione -- EFIM-FIM -- was created, which controls a financial holding company, Breda Finanziaria, which in turn controls the operative engineering firms formerly under FIM.

There were some eighteen companies still directly under the ministry in June 1960, including, however, some which subsequently passed to IRI, ENI and EFIM-FIM. By 1962 it would appear that the ministry had, to all effect, divested itself of direct control of the firms under its authority.

All these have contributed to a good deal in the GNP as may be observed from Table 1.2 which presents the approximate order of magnitude of the Public Sector in GNP at the end of 1962.
Table I.22

<table>
<thead>
<tr>
<th>Sector</th>
<th>Lire mld. and percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
</tr>
<tr>
<td>1. Central and local government</td>
<td>2,384</td>
</tr>
<tr>
<td>2. Autonomous enterprises</td>
<td>650</td>
</tr>
<tr>
<td>3. IRI</td>
<td>750</td>
</tr>
<tr>
<td>4. ENI</td>
<td>200</td>
</tr>
<tr>
<td>5. Other State Holdings</td>
<td>50</td>
</tr>
<tr>
<td>6. Total of public sector</td>
<td>4,034</td>
</tr>
<tr>
<td>7. Total G.N.P. less agriculture</td>
<td>16,392</td>
</tr>
<tr>
<td>8. Total GNP</td>
<td>20,551</td>
</tr>
</tbody>
</table>

SWEDEN:

Sweden presents a different picture. There the cooperatives and the public laws, grants and loans ensure the general welfare of the people and the state has found it 'unnecessary' to 'disturb' the private sector. Hence the idea of state intervention there did not have any roots in the pressure from socialist thinkers as in the United Kingdom, nor in any movement and representation from trade unions as in France. Again, it was not adopted as an emergency measure to deal with the crisis of financial and industrial system as in Italy. There the state came in with the intent of

22. Ibid: p.139.
promoting rapid economic and industrial growth without allowing the infiltration of foreign investors to exploit the resources of the country. The goal was attained through the establishment of a unique system of competing public enterprises in different fields. As an author has remarked: "None of them enjoys a monopoly. All compete keenly with one another, with resulting benefits in the form of moderate prices, better quality and able management, alert to the needs and desires of a critical public."\(^{23}\)

State-owned enterprises in Sweden are divided legally into two main types. First, there are what are officially called 'public enterprises' which are organised in effect as ordinary government departments. In 1969 there were seven of these: the State Forest Service, the National Defence Industries, the Airports Administration, the Post Office, the State Railways, the Board of Telecommunications and the State Power Board (supplying electricity generated mainly from water-power). Secondly, there are 'state companies' which are independent legal entities subject to the regulations of the Companies Act and in which the state owns all or a majority of the shares. There are about fifty of these companies including some which the public enterprises themselves have set up as subsidiary companies. The activities in which state companies are engaged are various.

The largest companies are those responsible for former, or continuing, state monopolies (such as wines and spirits, football pools and lotteries and tobacco) and the LKAB, which exploits iron ore deposits in the north of Sweden. Following closely on these in size of turnover is the holding company which operates Sweden's share in the airline, SAS. The numerous smaller companies are engaged in activities such as hotel and catering services, research and development of atomic energy, manufacture of transport and mining equipment, engineering, ship building, maintaining shipyards, iron-mining, printing and publishing and so on. There is a third type of state enterprise — credit and finance institutions. Still, however, it cannot be said that the State has complete control and ownership in these fields. The state has also to face and enter into competition with private enterprise in a number of industries including banking.

Two important features native to Swedish public experience are: (i) The idea of public ownership was never accompanied by a considered debate on the form of organisation. The latter was often determined by temporary interests or accidental circumstances. (ii) There have existed cordial relations and constructive co-existence between the public

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and the private enterprises. The former have never grown for their own sake, nor for any doctrinaire taboos. Their expansion has been goal-oriented and necessarily restricted. 'One obvious consequence of the policy of restraint is that the extent of public enterprise in Sweden today is proportionately only about half of what it is in Britain, where a tenth of the working population is employed in the nationalised industries and the Post Office.'

A Royal Commission was set up to inquire into the future of state-owned enterprises which submitted an initial report in January 1969. The Report which was concerned mainly with the problems of coordinating state undertakings at government level recommended the creation of a new state holding company as the basis of a general reorganisation of relationship between government and state owned enterprises in Sweden. A Bill was presented in June 1969 to Parliament for setting up the new holding company and followed closely the main objectives of the Commission. On 1 January 1970 the holding company was set up under the name of National Swedish Enterprises Ltd., owning twenty-four companies wholly or in part.  

**AUSTRALIA:**

Australia is a federation of six States. It has an area  

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27. Ibid.: pp. 186-87.
of a little under three million square miles. The sparsity of population has resulted in (i) a limited domestic market, and (ii) obvious implications for the structure of manufacturing industry. The economy is highly industrialised in terms of employment, 28% of the work-force being engaged in manufacturing. Over 80% of the work-force consists of wage- and salary-earners.

The Commonwealth Constitution, which dates from 1901 and which was greatly influenced by the United States model, sets down certain specific powers for the Commonwealth, the residual powers being exercised by the States. It is important to note that in many respects these powers are circumscribed either because they are themselves qualified or because they are subject to the over-riding requirement of Section 92 of the Constitution, which has greatly impeded the development of public enterprises in Australia. The Section lays down that "trade, commerce and intercourse among the States ... shall be absolutely free".

There are three major facets of economic policy about which the Commonwealth apparently has little power. These relate to (a) nationalisation of industries, (b) schemes for orderly marketing of primary products, and (c) the control of monopolies and restrictive practices. The Commonwealth can certainly establish its own business undertakings in any of the areas in which it has power, but it cannot nationalise
an industry in such a way as to create a government monopoly. Actually, the legislation nationalising air transport in 1947 was cast down by the Privy Council after appeal from the High Court! It is doubtful whether any State Parliament can nationalise an industry unless it is a purely interstate industry.

And yet Australia has made progress in the field of public enterprise. They have been of a uniform pattern in all the States, their creation having mainly coincided with the stage of development of the respective States' economies. "Australian public enterprise reflects not ideology but pragmatism and a universally shared concern that economic development be achieved by any and every effective means."\(^{28}\) The economic activities of Australian governments are, as Professor Brady has put it, "grounded in the expediencies of capitalism as much as in the ethics of socialism."\(^{29}\) This is also shown by the fact that government enterprises are predominant in the field of public utilities and developmental works. Private entrepreneurs were prompt in approving of state management whenever the enterprise was unprofitable for them. "In such situations public enterprise is merely a servant to private capitalists."\(^{30}\) Consequently, "even

\(^{28}\) Corbett D.C.(Dr.): Public Enterprise in Two Dominions (Canada and Australia): p.22.


\(^{30}\) Ibid: p.234.
in the days of generous enthusiasm for state activity after the First World War, public enterprise did not extend into heavy industry, which under fiscal protection, became highly centralised in a relatively few large corporations". 31

The distinction of being the first public enterprise in Australia goes to the Victorian Savings Bank founded in 1841. Railways rank second with the taking over of a privately-owned railway company by the colony of Victoria in the year 1853. By 1855 New South Wales had also established a publicly owned railway system. The Commonwealth Trading Bank was established in 1911. Electricity was the next to be taken over by the State when the Victoria State Electricity Commission was founded in 1919. The other States followed suit, with time-lags. Tasmania did so in 1930, whereas the remaining States including New South Wales did so from 1950 on. The Australian Broadcasting Corporation was established in 1932. In Australia, as in Canada, both radio and television broadcasting are shared between the public and the private sectors. The Chifley Labour Government established a new regulatory body -- the Australian Broadcasting Control Board -- in 1948.

Since 1945, there have been a number of major developments in the field. State housing authorities, for example, have

been responsible for the erection of almost one-fifth of all houses and flats completed. 'It has been the main providers of houses for renting and, certainly, in some states the costs of publicly built houses have been lower than those of privately constructed ones'. The most important of the government enterprises since the Second War have been: the Australian Aluminium Production Commission (1945) jointly with the Tasmanian Government to produce Aluminium; Trans-Australia Airlines (1946) to operate air services in competition with the one major private operator, the Overseas Telecommunications Commission (1946); the Snowy Mountains Hydro-Electric Authority (1949) to implement a very large scheme for the diversion of water in the Snowy Mountains area for the generation of electricity and irrigation; the Australian Coastal Shipping Commission (1949) to operate interstate shipping services; the Australian Whaling Commission (1949) to establish and develop the whaling industry; the Southern Electricity Authority of Queensland (1952) for proper distribution of electricity; and, the Atomic Energy Commission (1953) which is concerned with the construction and operation of atomic plant and mining and research. Two semi-regulatory authorities have also been set up: (i) the Joint Coal Board (1947) to ensure that the coal of New South

Wales is conserved, developed and worked in public interest and to promote the welfare of the workers in the industry, and (ii) the Australian Stevedoring Industry Authority (1956) to regulate stevedoring. The Commonwealth also established, in 1956, the Exports Payments Insurance Corporation for the purpose of providing insurance against non-payment in overseas trade.

Thus, public enterprises of the Australian States typically include savings banks, railways, marketing boards for a wide variety of agricultural products, electric power utilities, irrigation systems and harbours. A few states have extended them to brick works (New South Wales), sawmills (Queensland and Western Australia), fishing boats and fish shops (Queensland and New South Wales), shipping services (Western Australia), canneries, butcher shops and cattle stations (Queensland) and several other kinds of enterprises. At the national level, public enterprises in corporate form (i.e. not including such departmental undertakings as posts, telephones and telegraphs) include two airlines; a radio and television broadcasting system; a central bank, and a trading and savings bank with branches throughout the country; an export payments insurance corporation; the Snowy Mountains Hydro-Electric Authority; Commonwealth Railways linking West Australia with the eastern States and serving the Northern Territory and the Capital Territory; a shipping line; on overseas telecommunication
undertaking; and serum laboratories. The total direct government employment in non-departmental agencies in June 1939 was 20820 which figure had risen to 53233 by June 1955 in non-departmental employment of the Commonwealth.

Though most of the public enterprises are run through the statutory corporation form it should not be taken to mean that they have been employed as 'instruments of nationalisation'. There are constitutional limitations upon the Commonwealth in this respect as witnessed in the banking legislation in 1947. Of the Corporations which are conducting commercial enterprises, few control the whole field in which they operate.

Finally, it is sometimes suggested that government competition is the traditional Australian method of regulating the conduct of private industry. Such a generalization is subject to severe limitations. In the first place, public enterprise is not scattered throughout the economy but it is concentrated in certain fields; and further, in only some of these fields is it in competition with private enterprise as shown in Table 1.

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34. Spann R.N.: Public Administration in Australia: p.75. (Year of Publication of the Book is nowhere given.)
<table>
<thead>
<tr>
<th>Industry</th>
<th>Ownership</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>I. Primary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural and Pastoral</td>
<td>Private</td>
<td>Government marketing boards are important in agriculture.</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>Predominantly</td>
<td>State coal-mines are important but share production with private enterprise.</td>
</tr>
<tr>
<td>Forestry</td>
<td>Mixed</td>
<td>While 80% of forests are government-owned, these are usually exploited under licence by private enterprise.</td>
</tr>
<tr>
<td>Fishing, hunting and trapping</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>II. Secondary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Overwhelmingly</td>
<td>There are stray examples of government-owned enterprises in, for instance, saw mills, brickworks, abattoirs, drugs, arms &amp; ammunition, aircraft, shipbuilding &amp; repairing and printing. In only one of these fields is there a government monopoly, viz., in the production of certain types of arms and ammunition.</td>
</tr>
<tr>
<td>III Tertiary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>Public</td>
<td></td>
</tr>
<tr>
<td>Water and Sanitary Services</td>
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</tr>
<tr>
<td>Industry</td>
<td>Ownership</td>
<td>Comments</td>
</tr>
<tr>
<td>------------------------</td>
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<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Gas</td>
<td>Mixed</td>
<td>State housing authorities are active in provision of low-cost housing and flats.</td>
</tr>
<tr>
<td>Building Construction</td>
<td>Predominantly private</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>Mixed</td>
<td>Government has virtual monopoly of railways and tramways; but shares airlines, shipping, bus and road transport.</td>
</tr>
<tr>
<td>Communications</td>
<td>Predominantly public</td>
<td>Government has complete control of posts, telegraphs, telephone, telecommunications, but broadcasting and telecasting are shared.</td>
</tr>
<tr>
<td>Commerce</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>Mixed</td>
<td>Private enterprise is predominant in trading, banking, hire-purchase and mortgage finance and insurance; but government is predominant in savings banking.</td>
</tr>
<tr>
<td>Professional activities</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>Predominantly Public</td>
<td></td>
</tr>
<tr>
<td>Entertainment, sport and recreation</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Personal and domestic services</td>
<td>Private</td>
<td></td>
</tr>
</tbody>
</table>
The American economy is principally a capitalist economy. The thought of government participation in capital and/or management will be looked upon as something 'unsacred' or obnoxious. The expression of pure laissez-faire had reached its (fantastic) height in 1887 when President Grover Cleveland declared that "though people support the Government, the Government should not support the people" while vetoing down an appropriation of $25,000 to buy seed corn for Texas farmers ruined by a drought. But even as he spoke the words, the philosophy was dying; for, that same year had seen the creation of the Interstate Commerce Commission, a federal agency originally developed for railroad regulation in a few states. Local governments, too, had been taking remarkable steps. For example, by the middle of the 19th Century, the principal and the country governments in Pennsylvania had invested some $14 million in various enterprises -- in those days, a large sum, and more than twice the total invested by the State Government. At the same time, albeit more cautiously, the federal government also supported the burgeoning economy perhaps more effectively through subsidy and legislation than direct investment or management. America was recalling that even Adam Smith, the

great apostle of laissez-faire had acknowledged that Government had the duty of protecting "every member of the society from the injustice of every other member of it" as well as 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". He once made the classic remark that "people of the same trade seldom meet together even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices". 38.

The State did not intervene directly. Nor did it intervene as a matter of philosophy. The rapid industrialisation after the Civil War brought in its train insistent and successful efforts of entrepreneurs toward combination and consolidation sometimes approaching a monopoly. This concentration movement occasioned increasingly hostile reactions from farmers and small business groups who felt disadvantaged either as suppliers, as consumers, or as competitors. The organised pressures of these groups necessitated suitable government intervention. It took the form of regulatory legislations such as the anti-trust laws

which in theory might not be thought of as public sector economic activity in the pure sense of the term but which in fact brought about much more the same result as those of pure commercial activities.

'The growth of public enterprise occurs in response to external or internal stimuli, chief of which are war and depression'. 39 Both these factors did contribute to the growth of public enterprise in the home-land of free enterprise. Arthur Johnson put it thus: "the origins of government enterprises are specific to particular eras of our history and areas of the economy. Some originated to meet a specific need of government. Others have been created in times of national emergency, economic or military, when the demands for mobilizing our economic resources have exceeded the capacities or profitability requirements of private enterprise". 40 Even after the close of the War, a number of factors have operated simultaneously to keep the public sector active. The needs of defense and the new area of space exploration did call for steady outlays of large public sums and extensive governmental management; but even without these elements, the growth and increasing complexity of the economy and the nation as a whole forced the government to play a continuing role -- both regulatory

and managerial.

In general, to a greater or lesser extent, the public sector may be said to have comprised three main types of governmental activity, though in practice they have often been mixed together among themselves and/or with elements from the private sector: (1) Those providing essential services such as national defence, education, postal service and police and fire fighting forces which are now being normally considered the responsibility of the government. (2) Those providing, what a Joint Economic Committee of the U.S. Congress called, "subsidy and subsidy-like" assistance to certain groups, industries or individuals. These vary widely in nature and include such items as price supports to farmers, grants to, contracts with and tax benefits for certain industries, and support of research and development activities in the private sector. (3) Finally, there are the actual instances of government-owned and managed enterprises — the public sector in the narrowest sense of the term — which in the United States tend to be concerned mainly with natural resources, insurance programmes or banking and financial activities. It is in these programmes that government comes closest to the firms and corporations performing the same functions in the private sector, and is occasionally criticized by the private sector on the grounds of unfair competition, though in fact the government
rarely acts in this area unless when private industry has clearly shown itself unable or unwilling to fill a definite need.

In the first group of the 'essential services', the government management is not so extensive as is found in other countries. Thus, except for the mail service, communications -- telephone, telegraph, radio, television -- and all public transportation are in the private sector. (Internal broadcasting via satellite and the construction and management of sea and airports, major bridges and virtually all highways in the case of transportation are exceptions. Some local public transportation is also managed by government through municipal bodies.) Again, though public transportation are not run by the government, they are heavily subsidized directly or otherwise. For example, direct subsidies are granted to ship-builders and operators, to waterways, airports and highway construction, etc. and land grants help others. Many types of business enterprises also profit from various tax credit and relief measures, tariff regulations and other legislative activities.

Activities pertaining to the exploitation of the natural resources of the nation fall into the third group, viz., government-owned and -managed enterprises. Construction and management of dams, and irrigation and electricity generation activities are carried on by the government through
the establishment of Corporations, capitalised by public funds and managed by government employees. The creation of Tennessee Valley Authority and Panama Canal Company can be cited as outstanding examples. Mention must be also made of the recent establishment of Communications Satellite Corporation, a government sponsored body, which has its stock partly privately owned and include representatives from the private sector. Government is active in direct managerial and corporative role in the field of finance and insurance.

Viewing the role of public sector vis-a-vis the private sector in terms of total outlays and the gross national product — even while using the most elastic definition — it can be safely concluded that private sector still dominates the scene in the United States. By the end of June, 1968, as against the gross national product estimated to be about $8,50,000 million, the state and the local government disbursed only a total of $92,306 million for all purposes. The growth of public enterprise in the States has been a reflection of the shift in motivation from mere elimination of abuses to satisfaction of positive demands. Most significantly, the spread of government ownership of productive facilities does not appear to have stemmed out of conviction that private enterprise is inadequate to satisfy the public's needs or aspirations. A series of pragmatic adjustments in government-business relations have
helped to quell some doubts of the sort and, even in the areas of government ownership of business-type facilities, there has been emulation of and cooperation with private enterprise.

**JAPAN:**

Japan has its own special history of the evolution of public enterprises. The process of rapid economic growth had begun in Japan with the beginning of the Meiji era in 1868. The backward feudal structure of the economy then underwent a far-reaching transformation through direct state intervention dictated by the understanding of the fact that, instead of purely permissive measures aimed at an unhampered growth of private capitalistic enterprise, positive steps had to be taken by the state to give the "big push" necessary to bridge the gap between Japan and the advanced capitalist countries of the West.\(^{41}\) This 'push' was not only exerted on the industries and services associated with the country's infrastructure and its defence, nor even with its basic industries in general, but it was extended at times to private manufacturing industry, trade and agriculture. A variety of devices were used for the purposes; in addition to the usual monetary and fiscal devices, the government had unhesitatingly imposed direct controls when

these were thought essential. The Government did not also refrain from employing persuasion and coercion to bring the policies of individual concerns, business associations and cooperative societies into conformity with its will.

The Meiji government reorganised the whole administrative, financial and fiscal systems. It not only constructed a modern system of communications including the first railway line, a steamship service and postal and telegraphic services, but also went far beyond what was generally regarded at that time as economic activities proper to Government. It established many new manufacturing industries, and reorganised and expanded cotton mills, munition works, shipyards and shipping services. In 1880 the Government had owned three shipyards, 51 merchant ships, 5 munition works, 52 other factories, 10 mines, 75 miles of railway and a telegraph system. 42 The Government also gave financial assistance to private firms and sold to them on easy terms machinery which it had imported for the purpose. It engaged foreign technicians, teachers, managers and skilled workmen to provide the expertise needed for operating the new sectors of the economy. 43 Thus in 1880, the Japanese central government employed 37,000 persons, according to the first official

But this did not last long. The regulations for the transfer of factories, laid down in 1880 read: "The factories established for encouraging industries are now well organised and business has become prosperous, so the Government will abandon its ownership (of factories), which ought to be run by the people". Baran quotes Pevsner as saying that these factories were sold as a rule for 15-30 per cent of their actual cost.

As soon as the newly created enterprises became viable and began to yield profits, their 'privatization' started. In 1881, the deflationary policies of Count Matsukata were accompanied by the transfer of the majority of public enterprises to private interests. The main gains from the operation were extracted by the famous Japanese monopolies known as Zaibatsu. Great merchants played an important part in the 1868 Revolution, and since the government owned them money, they were able to press upon it in the seventies, to start the pioneering activities in the industrial field without engaging their own capital. The state coped with all the risks involved in the construction of first modern plants and

Zaibatsu took them over as soon as they proved to be profit-making.

The withdrawal of the state from the direct ownership and control of manufacturing industry and some other forms did not mean that it was to follow a laissez-faire policy. Its policy of disengaging itself from direct management was not unqualified. Certain industries became government monopolies for purely fiscal reasons. Also the Government was not slow to step in whenever the development of a strategically important industry seemed to require it. Thus, in addition to managing naval dockyards and munitions work, the Government took the lead in setting up the first modern iron and steel works in the country in 1901. The main railway lines passed under the government ownership and control in 1906. Of the total employment in factory industry in 1914 government plants were responsible for only 12 per cent. The list of the publicly owned and operated enterprises then included the postal and telegraph services, certain munitions factories, the largest steel plant, the Mint, the trunk railways, the government printing office and establishments connected with the salt, tobacco and camphor monopolies.

The depression of the thirties brought about radical changes in the attitude of government towards the public sector. State control was steadily extended over an increasing
range of institution and transactions. Official supervision over the associations of private industrialists and traders was increased. In 1934, the Government's Yawata Steel Works was combined with six private steel companies to form a concern wholly controlled and partly by the State. In 1938, electric power industry was nationalised and a series of laws was enacted in the same period for the purpose of imposing more rigorous official control over the basic industries. This process was accelerated after the outbreak of the Sino-Japanese War in 1937. The Second World War brought about its own rigours of control over the entire economic framework of the country.

The post-War period witnessed a metamorphosis. A policy of liberal market economy was followed and all forms of organisations associated with the war machine were eliminated. Zaibatsu were dissolved and the industries that had been brought under state ownership and control during the 1930s or during the War were denationalised. Thus, by the end of the American Occupation, the public sector seemed to have greatly shrink and the trend towards the concentration of economic power in the hands of the Government seemed to have been reversed. However, the diffusion of economic power was actually less complete than it appeared. For, the destruction of the Zaibatsu as centres of economic initiative at a time when capital resources were very scarce owing to
War devastations and overuse threw greater responsibility than ever on the Government. For several years after the War, the only important source of long-term finance for reconstruction was the Reconstruction Finance Corporation, an official concern which obtained its resources from the Bank of Japan.

A 'Reverse Course' was pursued by Japan on regaining her full sovereignty and many of the reforms that had been imposed on her were modified by her. But no attempt was made to renationalise the iron and steel industry and, although a publicly owned electric power company was established to build some new stations, the bulk of the generating and transmission capacity remained in private hands. Also, no attempt was made to extend official ownership to other industries.

In the financial sphere, the Special Banks, apart from the Bank of Japan, were wholly owned by the Government. These included (1) The Japan Development Bank, which supplied long-term loans to the basic industries, (2) the Small Business Finance Corporation, which conducted similar business with small and medium sized firms, (3) the Agricultural, Forestry and Fishery Finance Corporation, which financed the industries mentioned in its title, and (4) the Export-Import Bank, which was concerned with providing long-term loans in connection with export transactions. In addition to
these institutions, other government banks like the People's Finance Corporation, the Small Business Credit Corporation, the Housing Loans Corporation, and the Hokkaido and Tohoku Development Corporation also met the financial needs of their respective sectors.

After 1958, there was a change in the policy of the government — instead of investing in manufacturing industry and power production, which were yielding quick returns, it was decided to direct greatly increased investment in the construction of roads and social welfare. This involved the creation of new public bodies to carry it out. Already in 1948 the largest public concern in Japan, the National Railways, had been transferred from a government department to a public corporation and this type of organisation was preferred when the Government undertook other economic responsibilities. Such corporations were set up to deal with the construction of the major roads, the new trunk railway line from Tokyo to Osaka, and dwelling houses for letting, and also with various other projects like the provision of research into atomic energy. Thus, there were then 25 public corporations and concerns financed and controlled by the Government.

Talking in terms of man-power employed, it was 8% of the total occupied civil population at work according to the Census of Population of 1960. The proportion was certainly
low when compared with the corresponding figure for the United Kingdom (over 22%) even if allowance is made for the large differences in the importance of agricultural employment in the two countries.

PHILIPPINES 47

There the public enterprises were established for different motives under different situations. Prior to World War II, they were adopted to cope up with the demands of rapid nation-building; after the War, they were usefully employed for solving the difficult problems of socio-economic development.

The Spanish colonial era was characterized by the establishment of government monopolies and royal companies which exploited trade, agriculture and industry for profit and public revenue. The Philippine Revolutionary period was too brief and tumultuous for public enterprise to gain new forms or directions. The American regime lent them a new role. The Government established a number of public utilities to fill in the gaps of inadequate or inefficient facilities provided by the private companies. The Agricultural Bank was established in 1908 to meet the demand for agricultural credit. The official policy, however, was to interfere as

Government activity in business and industry gained considerable momentum during 1916-21 under the administration of Governor-General Francis B. Harrison. The Philippine National Bank was founded in 1916 for economic expansion. The ownership and management of the Manila Railroad Company were taken over by the Government in 1917 because of poor service and graft under private capital. The railways were also taken over by the Government to protect its investments in the form of guarantees and loans. Government also organised development companies owing to the timidity of private enterprise to invest in the exploitation of iron, cement, coal and petroleum resources. The victory of the Republicans in the American presidential election of 1920 brought about a major change in the policy. "Getting government out of business was the campaign promise of Leonard Wood, which was tried to be translated into action but without success as it was difficult to dispose of the existing government enterprises at reasonable terms." However, it was not until 1933 when a new state enterprise named the National Charity Sweepstakes was formed. By that time, the strong hostility against public enterprise was receding in the United States under the New Deal of President Franklin D. Roosevelt.

Under the Constitution of the Philippines Commonwealth
of 1935, new directions and trends set in with regard to national policy and development and public enterprises got a re-invigorated boost-up. The Constitution authorised the establishment of industries and even the transfer to government ownership of utilities and other private enterprises "in the interest of national welfare and defence". Nonetheless the Commonwealth President Manuel L. Quezon made it clear that he did not favour government "engaging directly in business enterprise that could well be left in the hands of private individuals except as to some public utilities." During the first four years of the Commonwealth, the Government reactivated the National Development Company, expanded the Manila Railroad Company, and created many government corporations with varied economic and social objectives, such as the National Power Corporation, Government Service Insurance System, National Coconut Corporation, National Tobacco Corporation, People's Homesite Corporation and National Food Products Corporation. Impressed by the role played by these public enterprises, the National Assembly passed a law, in June 1939, authorising the President to negotiate the transfer to government ownership of the Meralco Philippine Long Distance Telephone Company, Manila Gas Corporation and "any other public utility whose management

The Second World War and the Japanese occupation that followed in its wake led to the suspension or curtailment of the operations of many public enterprises in the Philippines. As soon as the country was liberated, however, moves to reactivate and recapitalize the pre-War State firms were initiated. Public enterprise, eventually, played a major role in the herculean task of national rehabilitation and reconstruction. The Rehabilitation Finance Corporation (now known as the Development Bank of the Philippines) was established to provide the necessary credit for the rehabilitation of agriculture, commerce and industry. In 1948, the Central Bank -- accounting for about a third of all public corporate assets -- was established. The Government also acquired control of the Manila Gas Corporation by purchasing 60% of its capital. Similarly, the National Development Company purchased stocks of the Philippine Electric Manufacturing Company "to help a new industry fraught with manifold technical problems and in need of government protection for

51. It should be noted that there was a little deviation from this policy of 'taking over' in 1946. The first President of the Republic Manuel Roxas declared himself "definitely opposed to government interference in the process of production and distribution" and would "not like to see the Government so deeply involved in business".
its survival". Thus, in a pragmatic manner, the proprietary or business activities of the Government expanded considerably in the first eight years of the Republic.

Though President Ramon Magsaysay lamented that "government corporations failed to achieve their objective because they were manned by incompetent or dishonest officials because they were diverted from their original functions or because they were unwisely expanded," and announced that "the government would confine its business activities to those phases of development where its participation was absolutely essential to the public welfare", four new government corporations and three other state firms were established during the first year of his office.

President Carlos P. Garcia, who implemented the announced policy of his predecessor more faithfully, handed over during his administration more government enterprises to private individuals than in any other period. However, in the last year, the desire to spur the economic progress of certain regions made him also deviate from the policy and, in June 1961, two government corporations, viz., the Mindanao Development Authority and the Central Luzon-Cagayan Valley Authority, were created.

President Macapagal, who succeeded him and called for "the complete withdrawal of government from business ventures", 
too, did not adhere to his policy-statement and promoted five new government corporations. Actually, while there were 28 government corporations at the beginning of his administration in 1962, the number had risen to 37 in 1964.

In brief, while philosophising in the past three decades and a half by the leaders tilted towards private enterprise, the needs of socio-economic conditions and the political orientation diverted their practice to the expansion of public enterprises in the country in one way or the other.

**U.S.S.R.**

The country is known for its socialist system of economy and the state ownership of the instruments and means of production. It is illegal there for any private citizen to employ anyone to produce a commodity for sale. "Articles 5, 6 and 7 of the Constitution of the U.S.S.R. say that (a) socialist property in the U.S.S.R. exists either in the form of State property (belonging to the whole people) or in the form of co-operative and collective farm property; (b) the land, its mineral wealth, waters, forests, mills, factories, mines, rail, water and air transport, banks, etc. are State property; and (c) even the common enterprises of collective farms and cooperative organisations with their livestock and implements, their products and their common buildings, constitute the common socialist property of those farms and organisations."  

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to all intents and purposes being a branch of state trade — was responsible for over 94% of all retail trade in 1967 and 1968", the remainder being accounted for by the free market!

Though the Great Octobe Revolution of 1917 transferred power to the representatives of the proletariat and the peasantry representing the overwhelming majority of the population, in the initial period of the new Soviet regime, nationalisation was not accepted as an economic move. The immediate preoccupation was with the seizure of certain economic key positions to consolidate the political power that had already been won and with measures of control over industry — control "both from above and from below" — designed to keep industry working and to protect the new regime both against the spreading epidemic of economic disintegration and against a possible "strike of capital" aimed at bringing the government to its knees." No sweeping measures of confiscation or nationalisation were immediately proposed; so much so that the nationalisation of the joint stock banks and their merging in the State Bank announced on December 17th was primarily undertaken to counter a strike of civil servants and employees of the State Bank, which was being organised by the League for the

Regeneration of Russia, financed by the private banks. A decree of December 18th, 1917, listed the reasons for which enterprises might be 'confiscated', which included the special importance of the enterprise to the State, refusal of the owner to observe the terms of the Decree on Workers' Control and the closing down or abandonment of the works by its owner.

Till May 1918, however, no industry was nationalised. Sugar industry was the first to be placed under the Supreme Sugar Committee — a government body, followed by the oil industry. Most of the nationalisation that took place in the early months of 1918 was due to the so called reason of sabotage of the owner. 'In industries where private concerns continued to exist alongside State enterprises, joint controlling bodies were set up to exercise general functions and regulations, consisting of representatives of the trade unions, of the private owners and of the government. This transitional State Capitalism characterised by control over private trade and industry rather than by extensive socialisation was to be evidence of an unstable situation. Therefore, during the first few years of Soviet rule the Government was compelled to introduce the policy of so called war-time communism. It had to change the forms of management, introduce the strictest centralisation and limit the autonomy.

55. Ibid.: pp. 85-86.
of enterprises and local economic bodies. Enterprises were supplied with raw materials and fuel, and products were distributed in a strictly centralised manner. The entire day-to-day guidance of enterprises in every sector was concentrated in central boards and centres. Industrial bureaus were set up in 1920 to supervise the work of the local economic councils and enterprises. It was during the same year that the GOELRO (State Commission for the Electrification of Russia) was set up. Excessive centralisation, however, was dispensed with with the introduction of the new economic policy which was intended to build socialism by using the market, trade and money circulation. Most enterprises now were united in trusts, operating entirely on cost-accounting lines and enjoying extensive powers and autonomy.

The management and administration part of the nationalised enterprises presented a very interesting picture. It took various forms and shape during these years. The beginning was made with the creation of VSNKH (Supreme Council of National Economy; Vesenkha) in December 1917, a body which was primarily created with the object of controlling privately run economy. It was endowed with operational powers over the economy with the nationalisation of the bulk of industry and

57. Ibid.: p.103.
trade. It operated by methods designed to preserve the maximum centralisation without giving freedom of any sort to local enterprise. Largescale industry under VSNKh was organised for production, planning and accounting purpose into Trusts composed mainly of enterprises producing similar commodities. This also did not work satisfactorily and, therefore, after a number of changes in its structure, it was finally abolished altogether on 5 January, 1932. The Supreme Council of National Economy was replaced by People's Commissariats which were subsequently broken down to improve the leadership of the rapidly developing industry. Again, a change took place in 1946 when the People's Commissariats were converted into specialised Branch Ministries.

Another change came in at the end of 1956. It was partly a reflection of a genuine need for reform and partly was devised by politicians to further their own ends. The new system was based on a territorial principle. All the USSR was divided into 105 (later 103) regional economic councils to which were directly subordinated the larger industrial and building enterprises. These councils did not control agriculture, transport or retail trade, save where these activities were directly associated with industry. But this system also did not serve the purpose. Because of elimination of economic minister under the 1956 reform,

various coordinating tasks were transferred to sectoral departments of Gosplan. These departments acquired considerable importance. Gosplan became the principal agency controlling and coordinating the work of the new councils. Weakness of the regional economic system was brought out during 1958-62. They were accused of defending their local interests, of compromising inter-republic delivery plans and of diverting investment funds and resources from the national interest. Another agency was, therefore, created -- Gosekonomsovet (the State Economic Committee) in 1960 to look after the long range planning. During 1962 further changes were introduced to delimit the functions of the central planning agencies. The new powers of Gosplan consisted in preparing current (annual or two year) plans, setting wholesale prices for industrial and agricultural products, setting rate schedules and retail prices and determining consumption norms for fuel and raw materials and norms for use of equipment. Again in March 1963 a new supreme central organ was announced: the Supreme Council of National Economy, new incarnation of VSNKh.59 Between March 1963 and October 1965, Gosplan's decisions were submitted to the further arbitration of VSNKh.60

59. Ibid.: p.78.
All these changes have had remarkable repercussions on the state enterprises. Excessive controls were imposed every time a new reform was introduced. It may be interesting to make a reference to the Regulation on Productive Socialist Enterprises which was adopted on October 4, 1965. This was in pursuance of the decisions of the Plenary Session of the Party Central Committee of November 23, 1963 which advocated greater autonomy for the enterprise and called for the drafting of a statute on the socialist enterprise extending the rights of enterprise managers and assuring workers a more active participation in management.  

"The regulation is not a statute and it is rather general and ambiguous, making numerous references to "established rules" and "legislation in force". It hardly meets any demand for reform. To prevent any misunderstanding about the status of the enterprise, Article 2 states plainly that it carries out its productive activity "under the direction of the agency above it and in conformity with the national plan." Practically all important decisions made by an enterprise conform to commands from above; the jurisdiction of the enterprise covers only those areas in which superior agencies do not deem it worthwhile to interfere. The volume of working capital is set by higher authority and cannot be changed unless the production plan is revised.

Profits of an enterprise are used in accordance with detailed instructions of the Council of Ministers, providing for payments into the budget, the enterprise fund, and the consumer goods fund. Materials and raw materials are supplied in conformity with allocation plans and inventory norms are determined by superior authority. The enterprise sets only those prices not set by higher authority. Any operation expected to result in losses requires a special administrative procedure. All decisions concerning bonuses, wage schedules and norms are strictly regulated.

It is interesting to note that, while the government and higher economic agencies reserve for themselves all essential managerial prerogatives over enterprises, they refuse to accept responsibility for obligations of enterprises. (Article 9). In other words, superior agencies reserve the right to force an enterprise to deal with anyone they choose, while disclaiming any responsibility if the customer turns out to be insolvent. Under such circumstances the financial status of an enterprise can hardly be expected to reflect the efficiency of management.

YUGOSLAVIA:

Few nations have had such a turbulent and romantic past as this country. Its history has had two main motifs: 

63. Ibid.: p.93.
national-religious conflict among the peoples occupying the land, and struggle for freedom from foreign domination. Long foreign domination was probably responsible for economic and social backwardness. It, in turn, also resulted in marked unevenness of development among regions.

It was not until the end of the Second World War that Yugoslavia was proclaimed a Federal People's Republic of Yugoslavia. The Communist leadership then came to power and organised the country along the lines prescribed by the Soviet Union for an Eastern Europeana people's democracy. It subscribed to the views that the capitalist society was in a state of stagnation and decay and was bound to be replaced by a socialist society in course of time, that as long as the bourgeois was the controlling factor in the state power, it would strengthen its own capitalist privileges and political position, and that there could not be an automatic transition from the system of state capitalism to socialism. Consequently, 'all industry as well as large estates was nationalised and a policy of collectivization began to be followed'. The new Constitution which was promulgated on 31 January, 1946, was a close copy of the Stalinist Constitution of 1936. The change came in during and after the Second World War when the Tito government had seized major industries within its Writ and the major means of

were under government control in fact, if not in legal theory. However, certain smaller factories remained in private hands technically until the second nationalization law of April 1948. But, even at this time, practically the entire economy was completely planned and directed by the federal government. 'According to an estimate, immediately after the close of the War, 55% of private industry was nationalised as a result of the confiscation of property belonging to absentees or collaborators, 27% had been taken by the State under forced sequestration and only 18% was still in the private hands.'

Yugoslavs did not merely believe in the formal ownership of the means of production and distribution. They adopted a new type of socialism which was based on two main themes: decentralisation and popular participation in public affairs at all levels. This change came in from the year 1950. The reforms introduced a new system of worker-management of industry. Worker-management was then followed by a sweeping decentralisation of state economic controls and planning. It was firmly held that 'no progress towards communism could be made unless there was development away from state ownership and where there was no progress this 'first and lowest form' of socialism degenerated into "bureaucratic state capitalism" exploiting workers by retaining the

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surplus value of their production in the same way as under capitalism. In this instance the state would not 'wither away' as it must under socialism but as, in the Soviet Union, would become bigger and bigger. This, according to the Yugoslavs, is not true Marxism at all but a deviation therefrom.66 The Yugoslav system in the judgement of an eminent Swedish scholar has "succeeded in blending the principles of free enterprise and collective ownership".67 Quite an interesting problem is raised by this collective ownership. The enterprises are neither privately owned nor are they owned by the State! Theoretically, there is social ownership by the nation as a whole, formal ownership is by the State, but the State does not interfere with the internal management of these enterprises. 'They are separate economic and legal entities possessing all the attributes of independent organisations. Each is free to organise its own production, market its own products, realise an income in accordance with market conditions and allocate its income, after payment of tax and contributions to salaries and funds.'68 The one general requirement for


all of them — as for business under capitalism — is that they operate profitably. Enterprises compete within themselves for the procurement of the raw materials and semi-finished goods. They fix the prices of their products in accordance with the laws of supply and demand. Profits are not fixed by the State; they depend upon success in the competitive market and obviously, therefore, enterprises pay stricter attention to costs and to efficiency in production. As a result of the competition in the market, similar products are sold by one enterprise for one price, by another for a different price and that prices vary from place to place.

This may inadvertently or surreptitiously give birth to another, development — to a tendency on the part of the worker-managements of enterprises to a general increase in the wages. In that event, the income for the increases had to be obtained by raising prices. Thus, a vicious circle might plunge the country in an orgy of inflation. This did happen in Yugoslavia. During the first half of 1954, retail prices rose by 9% and wholesale prices by 8%. Initially, this was tried to be controlled and corrected by the operation of the laws of supply and demand. The market mechanism did not bring about the desired results in view of general shortages of suppliers. Again, 'the limited number of producers and the inability to import because of foreign exchange
shortage placed many enterprises in near-monopolistic positions. And monopolies in Yugoslavia's laissez-faire Communism acted just like monopolies everywhere; they influenced the market rather than vice versa.  

The situation warranted for some sort of controls — both on prices and on wages. But the government was wedded to laissez-faire to such an extent that it adopted them reluctantly and used them sparingly — so much so that wherever price controls were adopted the government at first justified the departure. Subsequently, however, a Federal Price Office with wide powers to curb the price increases was set up. Strict conditions and procedures were laid down for the increase in prices. Similarly, the authority of the workers' councils to fix wages was sharply restricted by an extremely complicated set of regulations.

These regulations, however, were wiped out in 1961 by adopting a system whereby the discretion was re-granted to the workers' councils for the determination of wages. Accordingly, each individual economic enterprise operates under a workers' council — 'a type of management which was tried out but eventually abandoned in France and the U.S.S.R. For the day-to-day decisions, it functions through a management board elected by it from among its members.

69. Ibid.; p. 252. 70. Ibid.; p. 19. 71. In some respects, a workers' council can be thought of (contd...
In fine, it might be noted that Yugoslav socialism has rejected the concept of the State as the incarnation of an omnipotent consciousness which can and should determine the management of economic forces in minute detail. Instead, it has relied on a democratic mechanism for managing the economy so that the creative urge and energy of every individual can have full expression.  

It should not, however, be forgotten that a gradual shift from this policy of laissez-faire communism to 'sufficient' controls on the freedom and autonomy of enterprises has been visible. The curtailment of enterprise freedom through several important economic measures and the development of chambers and trade associations dominated by the government point of view are instances to the point.

**INDIA:**

India provides an interesting case in the study of public enterprises. The public sector was adopted as if in instalments and has now become a permanent feature of the economy. The state in ancient times acted as a welfare state. 'This idea of 'welfare state' was practised with such thoroughness and perfection as to make Professor K.T. (continued....)

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as a board of directors of a corporation and the management board as its executive committee.

Shah observe that the welfare state of to-day has very little
to teach to its ancient prototype; and perhaps a great deal
to learn which the modern protagonist of the idea cannot
understand or could not cope with. 73 The state then not
only intervened in the economic activities but also undertook
a number of activities, as can be seen from a survey of
public expenditures. Thus, apart from defence, it spent
substantial resources on "roads and their equipment with
bridges, rest-houses, trees and watering places, irrigation
works; temples and institutions of public welfare, like
schools, hospitals, and universities; charitable foundations;
police and other protective establishments for the peaceful
citizen, merchants and other travellers; ships and ferries;
legal, judicial and punitive departments, insurance against
famine like Grenaries and Goshalas, maintenance of Mines,
Forest and Public Factories, Mint and Royal Stores, houses,
palaces and Forts and the Royal Hunt." 74 Kautilya, the
renowned Minister-economist of Emperor Chandra Gupta Maurya
advised the latter to control the mines, weaving, irrigation,
stock-raising and trade. 75 Moghul Sultans took great interest
in maintaining state factories at different places such as

73. 'Ancient Foundations of Economic India' -- lectures
delivered by Prof. K.T. Shah in Baroda University in
Feb. 1951 -- Quoted by Sharma G.D.: Public Enterprises
in Ancient India: Lok Udyog (M.) June 1969 Vol.III No.4;
p. 363.

74. Ibid.

75. Sharma T.R.: The Working of State Enterprises in India
The conditions changed with the advent of British rule in this country. The philosophy of rigorous laissez-faire in industry was the dominant note in British policy after the first fight for freedom in 1857 and the assumption of direct rule by the Crown in 1858. It was to it conveniently in tune with the law of comparative advantage that the Indian economy should forever be confined to agricultural and extractive industries. Moreover, the parsimonious state could avoid increased expenditures by refraining from any assistance. Hence, at the end of the 19th century all that the Government did was to provide a certain amount of technical and industrial education and to attempt to collect and disseminate commercial and industrial information. Some of the national leaders vehemently opposed this passive policy of the government. Ranade, the spokesman of the nascent industrialism of a colonial India, advocated state intervention in economic affairs and expected it to organise some factories.

The notable events took place between 1851 and 1880. The first was the opening of a telegraph line for traffic—although for official use, and the second was the construction work of railways, which began in 1854 in the reign of Lord

Dalhousie. Though the construction work was entrusted to private companies, the state took it upon itself in 1869. These state interventions were in the field of public utilities and not industries. The Indian Famine Commission in their report submitted in 1880 recommended a change in the outlook of the Government and the development by it of industries like manufacture and refining of sugar, the tanning of hides, the manufacture of cotton, wool and silk, the preparation of fibres of other sorts, and of tobacco, the manufacture of paper, pottery, glass, soap, oils and candles. No action, however, was taken on these recommendations. The first attempt to help the industries directly was made by the state in the year 1898 when the aluminium hollow-ware industry was established in the Madras Presidency. Again, the year 1905 saw a change in the set policy of the state when Lord Curzon, the Viceroy, created a central "Commerce and Industries Department".

While the British Government pursued such a policy, the contribution of a few Indian Princely States towards the growth of public enterprises was note-worthy. They were not obliged to adopt the same industrial policy as evolved in British India nor were they wedded to the principles of laissez-faire. Among such progressive states

77. Prasad P.: Some Economic Problems of Public Enterprises in India(1957); pp. 87-88.
were Baroda, Gondal, Gwalior, Hyderabad, Kutch and Mysore.

Though the First World War brought home to the Government the need for modern industrial development in India because it had experienced the pinch of scarcity of various articles — especially of strategic importance, it continued functioning in the traditional policy rut, despite its assuming the emergency powers to direct the economy in various ways. The report of the Indian Industrial Commission, after a scholarly analysis of the Indian industrial scene, recommended, as early as in 1918, a very active policy of encouragement to industry by the Government. It pin-pointed the latter's attention to the "national necessity of establishing certain key industries" and had stated that "where secret or very specialised processes of manufacture are involved, Government should take steps to facilitate their introduction." Acting upon it, the Central Government created the Central Department of Industries in 1921. The Provincial Governments were given wide powers by the Government of India Act of 1935. The latter gave a great fillip to the industrial development in the country. Some progressive Indian princely states also took keen interest in the development of the industries and some of them nationalised important public utilities.

Another landmark in the policy of active state intervention

was the placing in April 1930, of broadcasting under the control of the Government of India in the Department of Industries and Labour. Again, the development of sugar, iron & steel and textile industry were possible as a result of the reorientation of the Government policy.

The Popular Ministries which came to power in the Provinces in 1937 also made active efforts for industrial development. A National Planning Committee -- with Pandit Jawaharlal Nehru as its Chairman -- was set up to prepare a comprehensive scheme of planning to suit our national needs. Various sub-committees of experts were set up to deal with all phases of Indian economic life and a number of basic principles were laid down. These included a tripartite classification of industries into defence, key and public utilities. Defence industries were to be "owned and controlled by the State". The majority opinion favoured state owned key industries, but there was a substantial minority who favoured 'state control' of key industries. Public utilities were to be owned by the public authority at all levels of government. Unfortunately, the Second World War broke out in September 1939, the nationalist Popular Ministries resigned from office and the activity of the State was switched over to the requirements of War.

A faltering but liberal industrial policy had to be followed by the Government. The Hindustan Aircrafts Ltd., Bangalore, was established in 1940 and the Board of Industrial and Scientific Research was set up. The problem of acute food shortage and high prices in 1943-44 compelled the Government to enforce various controls and enter the wholesale and the retail trade in foodgrains. A few Indian States also penetrated the field of road transport during the interwar and the postwar years, Kutch having been the first in the field of passenger transport in 1945, with a non-statutory transport Board.

The Government of India declared, while announcing its Industrial policy in April 1945: "A vigorous and sustained effort is necessary in which the State, no less than private industry must take part; and the Government have decided to take positive steps to encourage and to promote the rapid industrialisation of the country to the fullest possible extent."

A list of "basic industries of national importance, which might be nationalised if adequate private capital was not forthcoming and if it was regarded as essential in the national interest to promote such industries, was appended to this statement. It was also laid down that "the Government will take part either by making loans or by

81. Ibid.: p.4.
subscribing a share of the capital in industrial undertakings which are considered to be of importance to the country's development.\textsuperscript{82}

The War came to an abrupt end in May 1945. A national Interim Government was formed on 2 September, 1946.

Post-Independence Period:

Complete transfer of political power to Indian hands took place on August 15, 1947. The country was now free to adopt economic policies of its own choice to bring about a long-awaited metamorphosis on the industrial front. The Constitution which was adopted on January 26, 1950, laid down in the "Directive Principles of State Policy" the objectives of economic development. It was emphasised that the ownership and concentration of the material resources of the community should be distributed so as to promote the common good and no concentration of the means of production to the common detriment was to be entertained.

Many important events took place during the period 1948-1956. The first Industrial Policy Statement of the Government of free India was declared in April 1948. The industries were divided into four categories and the establishment and development of certain important and basic industries were kept in the hands of the Government, which

\textsuperscript{82} Ibid.: p.5.
later took active steps to fill up the lacunae in the industrial development of the country. The Industries Development and Regulation Act was passed in 1951.

Also, the Planning Era began with the launching of the First Five Year Plan in 1951. It was thereafter that, at first, the socialistic and, later, the socialist pattern of society as an objective of fiscal and economic policy was accepted and the concept of socialisation of the means of production obtained a stronghold upon the imagination of many prominent minds both in and outside the Government.

On 30 April 1956 came the second Industrial Policy Statement — popularly described as the Charter for Public Sector. It divided all the industries into three categories. The first category included those the future development of which was to be the exclusive responsibility of the state. The second category consisted of those which would be progressively state-owned and those in which the state would, therefore, generally take the initiative in establishing new undertakings but in which private enterprise would also be expected to supplement its efforts. The third category included the remaining industries the future development of which would, in general, be left to the initiative and enterprise of the private sector.

These events on the Indian scene, increased immensely the significance of the Public Sector industries. Quite big
sums — that again rose progressively — were invested in them by the Planning Authorities. (Vide: Table I.3).

<table>
<thead>
<tr>
<th>Investment</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-52 to 1955-56)</td>
<td>1560</td>
<td>1860</td>
<td>3360</td>
</tr>
<tr>
<td>Second Plan (1956-57 to 1960-61)</td>
<td>3731</td>
<td>3100</td>
<td>6831</td>
</tr>
<tr>
<td>Third Plan (1961-62 to 1965-66)</td>
<td>7129</td>
<td>4190</td>
<td>11319</td>
</tr>
<tr>
<td>Fourth Plan (1969-70 to 1973-74)</td>
<td>13655</td>
<td>8980</td>
<td>22635</td>
</tr>
</tbody>
</table>

As regards the fields of economic activities in which the State has penetrated, one can safely say that there is hardly any field which has been left untouched or uncovered either at the Centre or the State level. The activities have been in both industrial and non industrial areas. They cover steel and engineering, chemicals, drugs and pharmaceuticals, mining and minerals, petroleum and oils, aviation, shipping and road transport, shipbuilding and

repairs, trading, hotelling, housing, agriculture, food, backeries, milk, dairying, poultry, fisheries, telephones and teleprinters, locomotives -- diesel and electrical, -- and coaches, warehousing, insurance, banking, finance, electricity, photofilms, and motion picture exports, cement, research development, river valleys, textiles, precision-glass, sugar, poultry, forestry, rubber industry, bricks and tiles, text-book publishing, tanneries, coal, etc. This not-exhaustive list does not include the railways, post and telegraphs, All India Radio, defence industries, etc. which are under direct state control from long back and which are looked after by the concerned individual ministries through their departments. The total number of such central enterprises came to 410 as on 31 March 1968.

India has a federal form of government. It has 19 States with their own separate cabinets and legislatures. They are also supposed to push up the growth of the public sector enterprises. From the regional point of view, we find that Orissa topped the list with 47. Delhi and Kerala had 31 each. Mysore had 30. Maharashtra had 24. West Bengal had 23. Punjab and Haryana taken together had 16. Assam had 14, Bihar, Madras, Rajasthan and Uttar Pradesh each had 13. Andhra Pradesh and Madhya Pradesh each had 11. Gujarat had 9. Himachal Pradesh and Jammu & Kashmir had 5 each and Tripura and Manipur had 1 each.
There seems to be a lack of uniformity in the structure and the forms of organisation preferred in different States for their public enterprises. Thus, while, Kerala and West Bengal have adopted the Statutory Corporation form for the Agro-industries, they have the Joint-Stock Company form in Gujarat, Haryana, Madras, Punjab and Rajasthan. Further, some States like Orissa, Mysore, Kerala -- and to a certain extent West Bengal -- suffer from over enthusiasm, as they seem to be veiling with one another as to the numerical/quantitative growth of their public enterprises. It is interesting to note that Orissa has as many as 7 units for the iron and steel and allied engineering industries out of a total of 47, while Mysore has only 2 out of a total of 29 units. 84

Adam Smith was partially prophetic when he said:
"Governments are always and without any exception the greatest, spendthrifts in the society." After decades, the Estimates Committee had opined that the multiplicity of public undertakings should be reduced to the minimum and the existing organisations should take up new activities in the line unless when it has the character of becoming huge and monopolistic when the establishment of a new undertaking in the same line would be justified. The Committee had

further stressed that this policy should not only be
adopted for future guidance but also be applied to the
existing enterprises for their amalgamations. 85

As regards the form of organisation, Table 1.4 presents
very interesting data. It reveals that the joint stock
company form -- covering about 75% of the total number of
enterprises -- is very popular. Again, while the statutory
corporation form ranks second covering about 18%, Boards
are adopted in all the States without exception, only for
electricity administration. The departmental form seems to
be losing ground as only 15 public undertakings out of a
total of 99 are managed or operated through it by the Cen­
tral Government. 86 At the States' level, the public sector
enterprises are administered mostly through the joint stock
company or the corporation forms. Only in case of the
ports -- and sometimes fisheries, the departmental form is
adopted. The practice prevalent has been given expression
by the Planning Commission in these words: "Over the greater
part of the field the choice lies between management through
a company and management through a corporation. De­
partmental management has many advantages and is an appropriate
form of public enterprise only under certain defined con­
ditions. Where an enterprise is of a substantial commercial

85. Eastern Economist (W.): Management in State Enterprises:
<table>
<thead>
<tr>
<th>State</th>
<th>Companies</th>
<th>Corporations</th>
<th>Boards</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government/</td>
<td>(74)</td>
<td>(10)</td>
<td>-</td>
<td>99</td>
</tr>
<tr>
<td>Depttal (15)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Assam</td>
<td>11</td>
<td>2</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>Bihar</td>
<td>9</td>
<td>3</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Gujarat</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Kerala</td>
<td>22</td>
<td>8</td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td>Madras</td>
<td>10</td>
<td>2</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Mysore</td>
<td>22</td>
<td>7</td>
<td>1</td>
<td>30</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>19</td>
<td>4</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>6</td>
<td>4</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Orissa</td>
<td>43</td>
<td>3</td>
<td>1</td>
<td>47</td>
</tr>
<tr>
<td>Punjab &amp; Haryana</td>
<td>11</td>
<td>4</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>8</td>
<td>4</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>15</td>
<td>7</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>West Bengal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jammu and Kashmir</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Tripura</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Manipur</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Delhi</td>
<td>31</td>
<td>-</td>
<td>-</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total (15)</strong></td>
<td><strong>306</strong></td>
<td><strong>75</strong></td>
<td><strong>14</strong></td>
<td><strong>410</strong></td>
</tr>
</tbody>
</table>

Character and flexibility is necessary, joint stock company is a better form. Where an undertaking performs what in effect is an extension of Government such as broadcasting.

87. Ibid.: pp. 77-79 and 82.
This question of the form of organisation is so important that it needs a critical examination. On the form depends the success or otherwise of a public sector enterprise. Great care has, therefore, to be taken in choosing it. But the difficulty is that there cannot be a pre-determined set of rules — valid for all times and places — for the adoption of one or the other form for a particular line of activity. So many factors like the general state of economic development of the country, the availability of the skilled managerial personnel and the type of activity the Government wishes to undertake cross-play in the decision making process, nor can there be a blind imitation from other countries. A form which may be successful in one country may prove otherwise in another country. The form chosen will also depend upon the political and social conditions prevailing in a country at the time of taking over a running industry or establishing a new one. The case of the U.K., where the policies of the Labour Party gave particular shapes to it is illustrative of this. The Gorwala Report, too, made a pertinent observation that "the juridical shape of any State enterprise is also often of great importance. Modern development of technique enables the State to choose the shape it will give its enterprises. All these are instruments for achieving efficiency and
economic management".  

Analysing the history of the public enterprises in various countries we find that the departmental form is the oldest one. As Hanson put it: "The departmentally managed undertaking is the traditional type of public enterprise both in developed and underdeveloped countries".  

In the words of Robson, this has been the instrument for conducting postal services in all countries, and telephone and telegraph services in most of them. This form is usually adopted for reasons like direct government control of the activity, maintenance of secrecy and security and minimising the risk of mis-appropriation and misuse of public funds. However, it has limitations like the lack of initiative, flexibility, public accountability and, consequently, inefficiency, red-tappism and delays. Mr. Herbert Morrison, who had introduced the London Passenger Transport Bill, had opposed direct departmental control on the ground that it would prevent the managers from exercising their initiative in day-to-day administration and would subject them to undesirable pressures from different interests through the members of Parliament.

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The chief characteristics of this form are: (i) The enterprise is financed by annual appropriations from the Treasury and all or a major share of its revenues are paid into the Treasury. (ii) The enterprise is subject to the budget accounting and audit controls applicable to other government departments. (iii) The permanent staff of the enterprise are civil servants and the methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as for other civil servants. (iv) The enterprise is generally organised as a major sub-division of one of the central departments of the government and is subject to the direct control of the head of the department. (v) Wherever this applies in the legal system of the country concerned, the enterprise, possesses the sovereign immunity of the State and cannot be sued without the consent of the government.

This form may suitably be adopted where the activities are of a routine nature. The experience of Ceylon was not a happy one. Most of the government factories which were organised on this pattern failed to measure the most elementary standards of economy and efficiency. While the factors responsible for their wretched performance were varied, the Report of the Commission on Government Commercial

Undertakings (1953) proved beyond doubt that the form of management was one of them.\textsuperscript{93} Again, it was as early as in 1929 that Earl Attlee, after serving as Postmaster General in the Second Labour Government, had, in an article, expressed the view that Treasury control was wholly incompatible with the flexibility necessary for the conduct of a business concern.\textsuperscript{94} However, according to Jagdish Prasad: 'Inspite of the shortcomings inherent in departmental operation, this form of management has been a success in the case of nationalised road transport.'\textsuperscript{95} One school of thought holds the view that if radical structural and procedural modifications are introduced in the departmental form of organisation, it can be used or adopted with great advantage.

It was in order to do away with the inherent limitations of the departmental form of organisation and also to invite the public to be a partner in the industrial and commercial public enterprises that the joint stock company form came to the forefront. To quote A.D. Gorwala again: "The general principle regarding the choice of this form is that where the nature of the work of an authority is substantially

\textsuperscript{95} Hanson: Op. Cit.: p. 341.
commercial, a Joint Stock Company is more suitable...." It enjoys the benefits of both the sectors — the public and the private — and can carry on the activity on strictly commercial principles, with limited liability and secrecy. It has a legal entity and a democratic form of management as the board of directors is elected by the contributors of the capital. However, this form, too, is not free from drawbacks. As Robson has very emphatically put it, it "compares unfavourably with the public corporation in almost every respect. It is not created by Parliament or in any way answerable to it. It is not directly under the control of the Government except insofar as Ministers can control the membership of the board or influence their policy indirectly. Its activities and policies are sometimes carried on behind a thick smokescreen of secrecy which conceals much of what should be publicly known. Its policy is neither openly laid down in an Act of Parliament after public debate nor are there usually opportunities for discussing it in the legislature. Its reports and accounts are either not published or are no more informative than those of a commercial undertaking. Its corporate nature is often fictitious, since the ownership is usually vested in the Crown or in the Government. It is in no way an instrument of democratic socialism but is rather a device for avoiding

The Estimates Committee also does not seem to have looked favourably at this form. In its 80th Report on the "Public Undertakings -- forms and Organisation", it has, in unequivocal terms, emphasised that the company form should be an exception to be resorted to only for organisations (i) when the government might have to take over an existing enterprise in an emergency, (ii) where the State wished to launch an enterprise in association with private capital, or (iii) where the government wished to start an enterprise with a view eventually to transfer it to private management.

Despite the above, this form seems to have been very popular in our country as it evident from Table I. This may be explained by the basic difference in conditions, both social and economic, under which the Indian government has entered the industrial and commercial fields, as compared to its foreign compeers. In the U.K., for example, the government appeared on the scene as a controller and owner of the existing industries and not as a founder of new ones. This, again, did not call for active participation of public in those industries either for their financial needs or for boosting up the process of industrialisation. In our country, the case was altogether different -- if a large number of new units were to be established in various fields

and a rapid progress was to be ensured, the Corporation form would have failed to deliver the goods; for, a lot of procedural formalities would have had to be undergone and a considerable time would have had to be spent in promoting it separately for each unit. Again, it might also be in the interest both of the unit and of the Government to associate the public with a new venture. It is the joint stock company form alone which can satisfy these needs. Further, for foreign financial collaborations, this form is best suited. It may be recapitulated here that the Governments of certain European countries like France, Italy and Germany, suffering from politico-economic stresses of the First as well as the Second Wars, did acquire shares of collapsing or near-collapsing nationally important business concerns, though initially as a temporary rescue measure.

Adoption of a form satisfying most of the requirements, if not all, for the success of a public enterprise should be the ideal set before its organisers. It is highly important that, in a parliamentary democracy, the Parliament has a prior Day in the matter right from its inception. The Public Corporation satisfies some of the major needs. The crucial difference between this form of organisation and the other two discussed earlier is that, in this case, Parliament comes in the picture at a very initial stage and lays down
the scope and purpose of the organisation and its organisational relationship with the government. The most important single motive for preferring this form of organisation has been the desire to create the nearest equivalent to similar organisations in the private sector -- institutions enjoying the operating flexibility of private enterprise and yet clothed with the powers of government so that efficient conduct of business may be ensured. 98

President Roosevelt had also described public corporation as 'clothed with the power of government but possessed of the flexibility of private enterprise'. Ernest Davies defines a public corporation as "a corporate body created by public authority with defined powers and functions and financially independent. It is administered by a board appointed by public authority to which it is answerable. Its capital structure and financial operation are similar to those of the public company, but its stockholders retain no equity interests, are deprived of voting rights and power of appointment of the board". In the words of Dimock and others, "A public corporation is a distinct legal body, having in theory at least many of the characteristics of the corporation in private enterprise that cause it to be markedly different from the usual government operating agency. 100

According to the United Nations study the following are the principal characteristics of a 'public corporation':

(i) It is wholly owned by the State.

(ii) It is generally created by, or is pursuant to a special law defining its powers, duties and immunities and prescribing the form of management and its relationship to established departments and ministries.

(iii) As a body corporate, it is a separate entity for legal purposes and can sue and be sued, enter into contracts and acquire property in its own name. Corporations conducting business in their own name have been generally given greater freedom in making contracts and acquiring and disposing of property than ordinary government departments.

(iv) Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed. It obtains its funds from borrowing either from the Treasury or the public and from revenues derived from the sale of its goods and services. It is authorised to use and reuse its revenues.

(v) It is generally exempted from most regulatory and prohibitory statutes applicable to expenditure of public funds.

(vi) It is ordinarily not subject to the budget accounting and audit laws and procedures applicable to non-corporate agencies.

(vii) In the majority of cases, employees of public corporations are not civil servants and are recruited and remunerated under terms and conditions which the corporation itself determines.

(viii) In matters of internal management and day-to-day functioning, it is, to a large extent, free from parliamentary control. In policy matters it is, of course, subject to ministerial control.

(ix) Its primary motivating force is public service not profit making although it must work efficiently.

The public corporation is now experimented upon on a wide scale throughout the world for organising public enterprises. The Estimates Committees in its 80th Report had emphasised that 'all wholly owned public undertakings should generally be in the form of Statutory Corporations'.

However, the actual picture of the working of the public corporations is not as rosy as it is painted theoretically; for, much depends on how the legal framework is filled in. The Statute, bringing a corporation into existence,
may not grant the required or much talked immunities. Even when the immunities are granted, much may depend upon the development of conventions established in various spheres of management including the relations with the government. The Minister has the powers of appointing the Chairman and members of the Board and issue general directives for the running of the undertaking. Many countries did not have happy experiences of this form, not because there was anything inherently wrong with the form itself but because a clearcut definition of the province of powers to meddle into the affairs of the organisation was found to be absent. And, the concerned Minister could not leave the temptation of exercising the authority even in the day-to-day affairs of the corporation making autonomy just a paper provision.

The situation becomes all the more worse when the corporation has more than one contributors to the capital. This has been the experience of the Damodar Valley Corporation in India. Originally set up as an autonomous body with perfect operational freedom in imitation of the American Tennessee Valley Authority, in the course of time it found its progress blocked not merely by interference from the Union Ministry of Finance (the Authority had to obtain government approval for most of its transactions), but also by the three participating governments -- the Central, Bihar and West Bengal Governments. More or less the same was

the experience of other underdeveloped countries like Turkey, Greece, Colombia and Philippines. Consequently, 'the history of the Corporation ... appears to have been a series of unedifying episodes in which, so far as one can make out, the corporation has had to use a great deal of its energies in attempting to maintain its autonomy. Thus the piece-meal efforts to de-politicise and de-bureaucratise economic administration through the establishment of public corporations, have produced results which are probably worse than those which would have flowed from straightforward departmental management. The widely discussed advantage of parliamentary control also does not help the organisational efficiency. It would be interesting to note the observation of Earl Attlee in this regard. He said: "It is not true that parliamentary interpellation keeps public administration at a high level; on the contrary, it tends to timidity and centralisation ... The Minister and his principal officials, who ought to be concerned with major problems are constantly diverted to deal with matters which owe their importance only to the status of those who bring them forward." The revelations made by the Chagla Commission and the Vivian Bose Enquiry Tribunal in connection with the Mundhra deal of the Life Insurance Corporation of

India also showed that encroachment over the autonomy of these corporations by the Minister or his Secretary need not always be in the public interest.  

Over and above these widely used forms there are others which are also adopted for the public enterprises in various countries. They are (1) The Local Authority — used largely in the field of public utilities. (ii) The Regulatory Commission — also a product of mid-nineteenth century, which originated in Britain but secured a significant place in the United States and Canada. (iii) Control Boards — adopted when more than one ministry is involved in any public enterprise.

GUJARAT:

During the British regime, the geographical region of Gujarat consisted of various political divisions. Some areas which were under the British Government formed part of the Bombay Province, while a major territory was ruled by the Indian Princes, some of whom were enlightened. They were the pioneers in the public sector enterprise. Not only did they establish industrial and/or commercial undertakings but also rendered considerable help in the fields of public utilities like water-supply, drainage, electricity, irrigation, schools, libraries and railways. Some such States were Baroda, Gondal and Kutch.

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Again, even after Independence, Gujarat became a separate State only in 1960. Until then it had formed a part of the bigger bilingual Bombay State. Saurashtra, now a part of Gujarat, had enjoyed a status of an individual state until 1956, when it was merged with the Bombay State.

The separate state of Gujarat came into being on May 1, 1960, as a result of bifurcation from the bigger Bombay State. Consequently, it inherited some of the public enterprises like State Road Transport Corporation, State Financial Corporation, Electricity Board, and the Housing Board. These enterprises were re-named with the word 'Gujarat' prefixed to each of them. The new State had some teething troubles but it did not take much time for it to settle down and maintain economic progress. Various Acts were passed and many organisations were set up by the State either with full capital contribution or with public participation. Historically viewing, Gujarat State Warehousing Corporation was set up in December 1960, followed by Gujarat Small Industries Corporation Ltd. in March 1962, Gujarat Industrial Development Corporation in August 1962, Gujarat Mineral Development Corporation Ltd., in May 1963, Gujarat Export Corporation Ltd., in October 1965, Gujarat Industrial Investment Corporation Ltd., in August 1968, Gujarat State Textile Corporation Ltd. in November 1968, Gujarat Agro-
Industries Corporation Ltd. in May, 1969. Their organisation and working is presented in the pages that follow.