CHAPTER VII
PROFITS FROM PUBLIC ENTERPRISES

Another source for mobilising savings is surpluses from public enterprises. Profits in private enterprises have an important place in capital accumulation. They provide the necessary stimulus for maintenance and development of private enterprise. Ploughed-back profits are the basis for further capital formation and development in capital equipment along with improvement in technique of production. If self financing has made an important contribution to industrial development in capitalist countries, there is every reason to adopt this principle for public sector enterprises, when mobilisation of all possible savings is required to attain the maximum tempo of development without excessive inflationary stresses.

In its Ooty Seminar, the A.I.C.C., therefore, decided that 'it is essential that public enterprises should be so conducted as to yield planned profits and thus add to the resources available to the public sector'. Dr. Rao in his 'Note' pointed out that 'the share of the profits of public enterprises in financing the investment and maintenance expenditure of the government must keep on increasing. It is not only the expenditure on the public sector as such that will indicate the march of the economy towards its socialist goal. Even more important is the increasing role that the public sector must play for finding the resources needed for meeting both the maintenance and investment expenditure of the government. This involves a price and profit policy in regard to enterprises which goes against the hitherto accepted opinion. The theory of 'no-profit - no-loss' in the public enterprise is particularly inconsistent with a
socialist economy and if pursued in a mixed economy it will hamper the evolution of the mixed economy to a socialist society' (1). The Planning Commission also agrees with this point of view and states that "these enterprizes have an important role in enlarging public savings. They must, therefore, operate at a profit and maintain the high standard of efficiency required for the purpose. Their price policy should be such as would secure an adequate return on the investment made from public funds" (2).

This is different from the traditional approach to price policy in case of government undertakings. The traditional approach can be divided into three categories. First is the case of services where there should be no direct charge on the community by the government. The second case refers to public utilities where marginal cost should be made equal to price in order to optimise output. The third case refers to industries where there should be 'no profit, no loss'. The three cases may be examined in order to provide the necessary theoretical frame work to help determine a correct price policy for public enterprizes in India.

**First Case - Free Government Services**:

In case of essential services, there is justification for providing services free of cost. This is true in large measure in regard to services like education, sewage and garbage disposal. Similarly, if a facility has already been provided and it is not used to its capacity, the collection of charges may result in uneconomic restriction on utilisation. John F. Due has mentioned four cases where the service should be provided free of charge and the costs should be covered from general taxation (3).

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(2) Third Five Year Plan, p.127.
They are as follows:

(a) The services are of such nature that little waste will occur if they are made available without charge.

(b) The benefits accrue in part to the community as a whole, so that the charging of a price will result in unnecessary restriction of use of the service.

(c) Costs of collection of prices are high.

(d) The pattern of distribution of burden which would result from charging for the services is one which would be regarded as inequitable.

These rules are applicable with regard to a few essential government services. But in case of most of the other services, free service might lead to substantial waste of economic resources. The public consciousness has not risen so high as to mould individual behaviour for proper social action. Moreover, all are not equally benefited with regard to government services. If persons belonging to a relatively small group derive maximum benefit from a particular kind of service, they can easily be called upon to pay for it without inequity. That means except in case of essential services where the benefits are wide spread, the government may charge a price for all other services for the proper utilisation of economic resources and to secure equity in the distribution of tax burden.

Even when the marginal cost of a service is zero, there is no justification that prices should necessarily be zero. The significance of marginal cost in determination of price will be discussed later. But the case of zero-marginal cost belongs to a separate category. A zero marginal cost implies that the good in question could not be transformed into anything else. In these cases, one can, therefore, be fairly sure that some
people could be made better off without making any one worse off simply by lowering the price. The theoretical pricing rule is lower price until the service is fully utilised. In case of museums, parks and bridges, zero or near zero short run marginal cost is common and it is desirable that people should be allowed to use these things as much as they like by paying a nominal price. But the difficulty in these cases is that if these services are free, there cannot be any criterion for judging when to build museums, parks and bridges. Secondly, their costs including maintenance charges might increase the rate of marginal taxation.

Again, this principle cannot be applicable to transport services. Even if there are empty seats in a bus or tram, charging of low price, not speak of zero price, is undesirable. Because in that case, everyone would wait, as pointed out by Mr. Little, until the last moment for the price to come down, when there would be a horrid scramble. 'People who wanted to travel very badly would be crowded out by joy-riders, who would not have travelled, if they had had to pay anything' (4). Again, there would be no criterion as to when another bus or tram would run and the allocation of resources might be far from ideal.

**Second Case - Marginal Cost = Price.**

The traditional case for public enterprises in case of capitalist countries was the public utilities which refer to supply of water, some forms of transport, gas and electricity. These industries could not operate under the normal regulating force of competition due to technical conditions (5). If two rival-water-

(5) According to Marshall, these industries are indivisible industries and they cannot, therefore, run efficiently on competitive basis. See Memorials, p.374.
mains are laid in the same locality, there is unnecessary duplication of work and waste of expenditure. Again, the market is too small to allow more than one firm of optimum size. Since public utilities involve large fixed equipment and are necessarily restricted to a local market, monopoly seems desirable.

But in the case of monopolies, the allocation of resources is considered imperfect as the monopolist is likely to produce according to the principles of marginal cost and marginal revenue. It is, therefore, thought that the government should take over these monopolised industries and produce according to the principle of marginal cost and price in order to optimise resource allocation. Whether the industries are subject to decreasing returns or increasing returns, pricing on the basis of marginal cost is justified from the point of view of ideal allocation of resources. Even such opponents of marginal cost pricing as Prof. Lewis and Mr. Coase seem to have assumed that the output, which would be the effect of marginal-cost pricing, would in some sense, be ideal (6). If industries are operating under decreasing returns and prices are made equal to marginal cost when marginal cost exceeds average cost, there will be a profit. Such profits are necessary to hold down the use of the plant until it can be expanded to meet the excessive demand. If price is set at average cost levels, demand will exceed output and price will no longer effectively ration output (7).

If price is equal to marginal cost in the range in which average cost is decreasing, a deficit is incurred, since in this range, marginal cost is below average cost. If the price is made equal to average cost and all costs are covered, price exceeds

(7) John F. Due, op. cit., p.431.
marginal cost and output is held to uneconomically low levels. If price is made equal to marginal cost, while returns are still increasing, losses will, of course, be made, but this is not regarded as a reason for departing from optimum output as defined by the marginal analysis. On the contrary, it is held that this rule should be applied and the losses be met out of government subsidies, for the laissez-faire criterion of profitability is irrelevant in a properly controlled economy (8). Government should, therefore, allow extra-commercial considerations to enter into determination of its supply prices and conduct its operations with a view to promoting general welfare. Taylor has pointed out that almost every government produced good is more than one good - it is a good providing individual utility to the buyer, while at the same time providing utility to the community in terms of more general welfare. The second is normally regarded as a by-product of the first, and although there can be no exact science of allocating joint costs among multiple products, it is logical that the by-product should bear some share. It is upon this type of analysis that operation of some public industries at less than cost (the remainder to be made up by the general fund) can be justified (9).

There is no doubt that if the service provides indirect community benefits in addition to individual benefits, price should be equal to marginal cost (in some cases even lower than marginal cost) in order to increase the supply of the service.


and the loss covered through general taxation. Particularly in cases where the marginal cost is zero, there is a clear case for the adoption of marginal cost pricing principle. Again, if there is a great inequality of income between different regions, such a price policy may facilitate the government for distribution of real income for underdeveloped areas (10). However, if such a price policy is related to a small number of public enterprises in a predominantly private enterprise economy, there may not be much loss on this account. But if the public sector is enlarged and extended to a large number of industries, pricing on the basis of marginal cost principle may give rise to serious difficulties. The following difficulties are worth noting.

(1) If the price of the service is equal to marginal cost and the consequent loss is covered by general taxation, the users are likely to gain at the expense of those who pay the tax in order to provide the facility. This system of subsidisation may, therefore, redistribute income in a way which favours the users and discriminates against the non-users of the commodity. Prof. Hotelling evidently believed that marginal cost pricing combined with covering over-heads would not have a significant effect on distribution. Thus he argued that a great variety of public works would be undertaken and a rough randomness in distribution would be ample to ensure such a distribution of benefits that most persons in every part of the country would be better off by reason of the

(10) Little in his survey of marginal principle points out that if the whole loss is covered by general marginal taxation and where the service is one that is consumed by individuals, Lerner-rule can be defended provided the following conditions are satisfied:

(a) That almost all individuals benefit to some extent or that the income redistribution is favourable;
(b) That marginal cost is very small in relation to average cost;
(c) That a multiplicity of indivisible decisions is not, as a result, left without any criterion.

See Little op. cit. pp. 200-201.
programme as a whole*. Mr. Coase disagreed with the view that the resultant distribution ought to be neglected (11). It is certainly obvious that some people would pay more taxation and get little or no benefit. Taking, however, a broad view, one could scarcely say that there would be what one might, according to Mr. Little, call an exciting change in distribution. But we must remember that the distributional effects must not merely be small; they must also be small in relation to the extent to which gainers could overcompensate the losers. It is much more difficult to say that the distributional effects would be relatively small in this sense (12).

Even if there is no compensation, marginal cost pricing with subsidisation from general taxation might be justified on the ground that such a policy involves a shift of income from profits to wages or provides more benefits to the poor and thus leads to a more equal distribution as between persons. But there is no guarantee that consequent income redistribution will be always optimum from the point of view of the community. Public services are not always of such a nature that only poor people derive more benefit from them.

(2) Closely connected with this is the argument made by Lewis which implies that 'he who benefits ought to pay'. This is a kind of value judgment since this leads to the problem of distribution. But this cannot be neglected since such judgments play a considerable part in any decision as to what policy is the right policy. In considering income distribution, Henderson points out, 'And, in fact, in most countries we find complaints that state help in this field has benefited some areas or some classes at the expense of extra taxation borne by the whole community. Such

(12) Im* M. D. Little, op. cit. p. 187.
charges are almost incapable of disproof, and, whether they are justified or not, there is some objection to a policy which is almost certain to provoke them' (13).

It is quite possible that inequality of treatment is desirable from economic point of view. But it should be clearly recognised that 'A' ought to pay on the ground that he benefits, but not pay on the ground that he is poor. But if he is not poor, neither economic principles nor social justice demands that there should be any violation from Lewis's dictum.

(3) From an administrative point of view, it is argued that the failure to price at average or full cost 'reduces the status of accountancy and the principle of accountability to empty formularies' and encourages empire building expansion. If deficits are incurred without hesitation and covered by government appropriations, there is not only reduced emphasis on efficiency but the political interference with the policies of the enterprise is almost inevitable. This leads to confusion in investment policy. It is, therefore, said that 'if the keeping of accounts is to be taken seriously, and if the handling of public funds is to be treated as an important social responsibility, then the formal logic of the marginal directive must be discarded' (14).

(4) If the loss covered by additional taxation is substantial resources available for other developmental purposes may be inadequate and economic progress to this extent may be hampered. Moreover, additional taxes imposed to cover these deficits may create adverse effects on the economy which may be worse than the misallocation resulting from making the users pay all the costs (15).


The arbitrary nature of marginal cost makes it uncertain and unpredictable. For example, if factors are indivisible, it is difficult to assess accurately marginal cost. Marginal cost measures the intake or shift of factors that has to be made to give a unit increment of output. But in some points, due to heavy investments, variable cost is insignificant and in some other points, where capacity gets exhausted and additional production needs new capacities, additional charges incurred at such points are abnormally high. This shows that when indivisibilities are present, the marginal cost we get by the test of marginal factor intake varies abruptly with small changes in the extent and location of the variation in output. If marginal cost thus becomes arbitrary, it is incapable of becoming the basis of price fixation.

Again, in case of durable and specific factors, marginal principle does not seem to be adequate. In case of such a factor, there is no opportunity cost since such a factor is available in given supply whether it is used or not. When the factor was constructed, resources were absorbed by it which otherwise could have made something else and this did impose an opportunity cost at the time; but that is now a thing of the past and bygones are bygones. The opportunity cost imposed by using the factor now is nil and hence marginal rule implies that there should not be any charge for such a factor.

Phelps Brown has shown that such an argument is fallacious. In case of durable and specific factors, there are generally two types of cost:

(a) Anticipated opportunity cost i.e. present factor use is possible because of opportunity cost borne in the past, (b) Postponed opportunity cost. This is again divided into two: (i) user cost, (ii) maintenance cost, so far as rate of depreciation is independent of use. The marginal rule justifies charging user cost in unit prices, but neglects (b) (ii) and (a). According to Phelps Brown, there is justification for charging (b) (ii) and (a) in unit prices because charges for maintenance should be spread over all users and not concentrated at such points of time as they happen to crop up. Similarly with regard to (a), what matters to social policy is replacement cost and not original cost. And the replacement cost of existing equipment must be reckoned on the same principles as the cost of currently constructing equipment.

The above analysis shows that the arguments against marginal cost pricing principle are overwhelming.

Third Case - No Profit, No Loss:

To obviate the difficulties of marginal principle and especially the bad effects of increased taxation for subsidisation, it is held that prices of public enterprises should cover total costs. Lewis points out that the price policy should be such that 'it should make neither a loss nor a profit after meeting all capital charges'. Lewis
specifically refers to industries where average cost falls as output expands and makes it clear that it is fallacious to charge prices equal to marginal cost. 'It is quite true that no person should be denied a supply who is willing to pay its marginal cost, but it does not follow from this and is quite untrue, that the consumers as a whole ought to be subsidised.' .......' What the economists' principle supports is not a public subsidy, but a system of charging what the traffic will bear, so that consumers contribute to fixed costs according to their capacity to pay' (17).

The same point has also been made by Coase, Henderson, Little and Durbin. Their point is that State enterprises should pay their way. In the U.K., the public Corporations operating the nationalised industries are required by the Acts establishing them to pay their way taking one year with another. They may borrow (subject to Ministerial and Treasury approval) for the development of their undertakings up to limits laid down by Parliament, but they must meet out of revenue all trading expenditure, provision for depreciation, interest and all proper charges

to revenue (18). Gorwala also suggested a similar policy for Indian State enterprises. According to him 'th general pricing policy should be to fix such a price for the product so as to enable the enterprise to 'break even' over a period of years or taking one year with another' as is sometimes stated. In other words, 'taking several years together the enterprise should make neither loss nor profit' (19).

Now if it is accepted that State enterprises should cover total cost, we must be sure with regard to the meaning and connotation of total cost and the way in which it can be covered.

With regard to components of total cost, the following items may be included:

(i) The cost of production,
(ii) Adequate provision for depreciation (20),
(iii) Interest on capital employed,
(iv) Selling, distribution and advertisement expenses.


(20) Provision for depreciation should be calculated on the replacement value of plant and machinery and not on original cost. The U.S. Supreme Court also upheld this point.
These costs can either be covered by making price equal to average cost or following a policy of two-part or multi-part tariff. Durbin supports a policy of average cost pricing. According to him, prices should cover average costs—all costs, long period and short period, fixed and variable, current and replacement should be included in the estimates upon which prices are based—then only management can be restrained by financial responsibility. So the corrective directive that should be given to the socialised Corporations falls into three parts: 'First establish an accurate system of forward costing, secondly include in it all the payments, however distant, than can be reasonably foreseen. Thirdly, vary output so as to make prices cover average costs. If demand falls so much that you cannot cover these costs by any variation in output open to you, then, but only then, shall we consider reducing your fixed capital charges' (21).

Though average cost pricing leads to 'no profit, no loss' in case of public enterprises, it gives rise to new difficulties. Between average cost pricing and marginal cost pricing, the latter is better for two reasons. Firstly, if consumers are not allowed to buy additional units at marginal cost, there is a misdirection of the factors of production. Marginal cost, therefore, allows a better choice at the margin in consumption and production. Secondly, average cost pricing in some cases may reduce the effectiveness of market test for determining the willingness of consumers to pay the total cost. For example, if in some cases the demand curve lies at all points below the average cost, average cost pricing will give no output at all. Discrimination in such cases is desirable not only to produce some output (22), but

also to cover the total cost.

It follows, therefore, that if total cost has to be covered, multi-part or two-part tariff is more desirable. In case of most public enterprises, overhead costs generally form a relatively large part, and direct costs a relatively small part, of total costs. In undertakings like Railways or electricity, large installations are necessary for laying the railway tracks or building hydro-electric stations and the annual charge for interest and depreciation on this bears a high ratio to the annual charge for the labour and materials used in operating it. Moreover, these undertakings are designed to promote public interest. In such cases, the buyer may be called upon to pay a due contribution to overhead costs and the unit price may be covered by marginal cost so that the consumer can adjust his purchases according to marginal principle (23). The two-part tariff is the general form of separate charging overhead and direct costs. In case of electricity for example, the house-holder pays a fixed annual charge and then pays a further sum reckoned at so much a unit on as many units as he actually consumes.

It is true that two-part or multi-part tariff is not free from difficulties. For example, it might be difficult to find out the way by which to distribute overhead costs between different products and buyers. Similarly the two-part tariff or multi-part tariff can be used only where the buyer is buying fairly continuously from one source and the enterprise can confine its sales at unit prices to those who have paid the standing charge. Thirdly, one special disadvantage of multi-part tariff is that it involves discrimination and discrimination is not always fair. (23) Two-part or multi-part tariff has been supported by Coase, Lewis and Henderson, op. cit.
However, taking all aspects into consideration, it may be safely said that multi-part tariff is a desirable method to cover total cost. It prevents significant redistribution of income, provides a check on investment and makes the finance of the undertaking more or less autonomous. Moreover, it provides a reasonable system of pricing which enables the managers to decide whether some new undertakings would pay their way with that pricing system.

The important question in this case is that total cost should be covered. The price in some cases might be equal to average cost or in some other cases, it might be on the basis of two-part tariff. That will depend upon the nature of public enterprises. However, in both the cases, the 'ideal output' has to be sacrificed in order to cover total cost. Especially in industries where the overhead cost is high and where the average cost is a decreasing function of output, average cost pricing would sacrifice the criterion of optimum allocation. But ordinary business rules are probably more important in guiding investment decisions than the optimum criteria (24). It is, therefore, necessary that public enterprises should aim at covering total costs.

Fourth Case: Deriving Profit.

In countries where the public sector is predominantly interested in public utility enterprises, the business principle of 'no profit, no loss' may be accepted as the criterion of price policy. But where the scope of public sector is considerable and rapid economic growth is held as the primary objective of planning, profit maximisation should be the guiding principle. In view of this, public enterprises in India and other underdeveloped countries

(24) But since in an economy majority of industries are supposed to conform to the principle of constant returns to scale, a near-approximation to optimum allocation is provided by cost-price equation, which is the competitive criterion.
should aim at making legitimate profits. The major problem in case of these countries is lack of development and there is need for tapping all the available resources for accelerating the progress of the economy. Public sector thus can play an important part in this task of development. The following reasons may be ascribed for profits to be earned in public enterprises in India.

(1) **Increased size of the public sector:**

The size of the public sector has been increasing since independence. The Industrial Policy Statements of 1948 and 1956 and the acceptance of the goal of Socialist Pattern of Society have necessitated the expansion of the public sector to a large extent. It has become the responsibility of the government not only to initiate economic development, but also to provide scope and opportunity for the development of the private sector. In the first plan, of the total investment of ₹3360 crores, a sum of ₹1560 crores or nearly half was in the public sector. In the second Plan, the proportion of the public sector was larger. Of the ₹6750 crores of total investment under the second Plan, public sector investment was ₹3650 crores. The ratio of public to private investment being 54 : 46. Reckoned at current prices, the total investment during the two Plans was ₹10,110 crores, ₹5210 crores in the public sector and ₹4900 crores in the private sector (25). This shows that the size of the public sector is gradually increasing. In the third Plan, the ratio of public sector to private sector is likely to be 60 : 40. Of the total investment of ₹10,400 crores in the third Plan, public sector investment is visualised at ₹6300 crores (26). Details

(25) Third Five Year Plan, p.32.
for the three Plans are given below.

**TABLE VII - 1**

Investment in three Plans:

(At current prices)

(₹. crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>1560</td>
<td>3650</td>
<td>6300</td>
</tr>
<tr>
<td>Private Sector</td>
<td>1800</td>
<td>3100</td>
<td>4100</td>
</tr>
<tr>
<td>Total Investment*</td>
<td>3360</td>
<td>6750</td>
<td>10400</td>
</tr>
</tbody>
</table>

* Excludes transfers from the public sector.

As a result, the State has been playing an increasing role in the matter of capital formation. Whereas the share of the State in reproducible wealth amounted to 14 per cent in 1949-50, it had already gone up to over 23 per cent in 1958-59 as will be seen from table VII-2 (27).

**TABLE VII - 2**

Growth of Wealth and the Share of the Public Sector,

(1952-58)  (₹. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total tangible wealth (at 1952-53 prices)</th>
<th>Reproducible capital (A)</th>
<th>Capital owned by the Public Sector (B)</th>
<th>Percentage of (B) to (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>36,222</td>
<td>18,545</td>
<td>2,840</td>
<td>15.3</td>
</tr>
<tr>
<td>1953</td>
<td>36,878</td>
<td>19,201</td>
<td>3,036</td>
<td>15.8</td>
</tr>
<tr>
<td>1954</td>
<td>37,606</td>
<td>19,929</td>
<td>3,352</td>
<td>16.8</td>
</tr>
<tr>
<td>1955</td>
<td>38,718</td>
<td>21,041</td>
<td>3,819</td>
<td>18.6</td>
</tr>
<tr>
<td>1956</td>
<td>40,160</td>
<td>22,483</td>
<td>4,309</td>
<td>19.2</td>
</tr>
<tr>
<td>1957</td>
<td>41,578</td>
<td>23,901</td>
<td>5,118</td>
<td>21.4</td>
</tr>
<tr>
<td>1958</td>
<td>43,002</td>
<td>25,325</td>
<td>5,866</td>
<td>23.2</td>
</tr>
</tbody>
</table>

(27) N. Das: The Public Sector in India, Asia Publishing House, 1961, p.66.
This increased share of the State in reproducible wealth has been due to increased capital formation in the public sector. Thus, between 1951 and 1958, capital formation in the private sector increased from ₹.459 crores to ₹.681 crores and that in the public sector increased from ₹.145 crores to ₹.748 crores (28). This is illustrated in table No. VII - 3.

TABLE VII - 3
Public Sector’s Share in Capital Formation
(1952 - 58)
(₹. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net capital formation (at 1952-53 prices) (A)</th>
<th>Net public capital formation (B)</th>
<th>(B) as a percentage of (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>440</td>
<td>70</td>
<td>16</td>
</tr>
<tr>
<td>1953</td>
<td>656</td>
<td>196</td>
<td>30</td>
</tr>
<tr>
<td>1954</td>
<td>728</td>
<td>316</td>
<td>43</td>
</tr>
<tr>
<td>1955</td>
<td>1112</td>
<td>467</td>
<td>42</td>
</tr>
<tr>
<td>1956</td>
<td>1442</td>
<td>490</td>
<td>34</td>
</tr>
<tr>
<td>1957</td>
<td>1418</td>
<td>709</td>
<td>50</td>
</tr>
<tr>
<td>1958</td>
<td>1429</td>
<td>748</td>
<td>54</td>
</tr>
</tbody>
</table>

When the State plays such an important role in developing the economy, it cannot go on investing resources without anticipating any addition to its revenues to maintain and extend the investment. Besides, the State also gives substantial aids to private sector for its expansion. In capitalist countries where the State plays a minor role in developing the economy and the size of the public sector is unimportant, profit consideration may altogether be neglected. Not so in case of India

(2) The composition of the public sector:

Not only is there an increase in the size of the public sector, but the composition of the public sector is also different in India from that of the developed countries. The public sector in capitalist countries is generally confined to

a few important public utilities. In case of India, on the other hand, the government is undertaking varieties of enterprises including commercial and manufacturing. The projects and enterprises that have been started by the public sector in India since 1947 can be classified under five broad heads:

(a) defence and strategic establishments; (b) public utility undertakings; (c) industries; (d) shipping and (e) other projects (29).

If commercial, financial and manufacturing concerns were started by private sector, it will realise a profit either for further development or for personal gain. There is no justification why public sector should not earn profits from these enterprises. The profits of public enterprises are probably more desirable from the point of view of economic development. Moreover, some of the public enterprises are competitive in character; they operate side by side with private enterprises and compete with them. If the private sector in these cases is allowed to make profit, the public sector should also be allowed to make profit. Discrimination in such cases does not seem to be desirable.

(3) Collection of Indirect benefits:

The establishment of public enterprises sometimes lead to indirect social benefits which are in the nature of windfalls and for which a special tax is justified. But it is very difficult

(29) Other projects include all miscellaneous undertakings which do not fall within any of the categories already specified. The Damodar Valley Corporation is one of the most important undertaking in this category. Another group of miscellaneous undertakings in the public sector consists of such bodies as Exports Risks Insurance Corporation Ltd., the Indian Handicrafts Development Corporation Ltd., the National Small Industries Corporation Ltd., the State Trading Corporation of India Ltd. and etc. The State has also stepped into the fields of banking, insurance and finance. There are a number of institutions like in this category. The government of India has lately expanded its activities in the field of hotel business as well.
to measure benefits and impose additional taxation in order to collect a portion of additional benefits. It is better to charge a higher price for the output of this investment and get money at the source. In the case of agriculture, where there is difficulty in levying new taxes due to low savings and diffused income, there is a clear case for realising additional resources through increased water charges or prices of fertilisers. If the additional benefit is passed on to the consumer in the form of lower prices, there is no guarantee that the individual consumer will be induced to save more or the industrial consumer will use the resultant higher profits of his enterprise to the best national advantage. That is why Lewis has rightly said that 'it is folly to keep prices down in the nationalised industries, thereby raise private sector profits and then to have to borrow these profits to finance investment in the nationalised industries' (30). The snags in this roundabout method of public capital formation are so many that it is better that the State should keep the accumulation made possible by public enterprise under its own direct control (31).

(4) Need for Additional Resources:

The problem of finance for economic development has become so acute in India that the government is imposing taxes on essential commodities like sugar, kerosene, matches, tea, coffee, cloth and tobacco and on materials like cement and steel.


(31) Especially when the taxing power and machinery are weak, a price policy calculated to fetch profits as a means of economic development is both desirable and necessary.
When there is a need to tap all possible resources for increasing economic development in the country, public enterprises cannot be allowed to run at a loss. If voluntary savings and normal taxes were adequate, the desired rate of growth could have been achieved without charging any higher prices to the products of public enterprises. Now as it is, the tax element in pricing public enterprises has to be weighed against the expansion of public investment or increase in public expenditure that it makes possible and since the latter has the balance of advantage in its favour, it should be pursued (32).

Moreover, between indirect taxes and higher prices from public enterprises, the former does not seem to be in any way better than the latter. 'We agree that as a form of taxation, profit from public enterprises has', according to the Taxation Enquiry Commission Report, 'less to commend it than direct taxation, but we must also affirm that it is not less suitable as a means of raising revenue than many of the indirect taxes to which resort is necessary in the alternative (33). The Commission further emphasises that in considering pricing policies of State undertakings in a comparatively underdeveloped country like India, regard must be had to the need for relating them to the economic and institutional context in which they operate rather than to the standards that are more appropriate to the conditions obtaining in the advanced economies (34).

(34) Ibid, p.203.
(5) **Need for the expansion of the public sector**:

The larger the public sector, the greater is the need that the public sector should make profits. A very large part of the savings of the community now comes from corporations. Indeed, private corporations save more than they invest, in addition to which they make profits and pay tax on them, which is also contribution to governmental savings. Again, most goods produced in the private sector are indirectly taxed. Thus private sector makes contribution towards financing investment and government expenditure via indirect taxation, via contributing to the profit and income tax of corporations and via corporation saving. On the other hand, even though industries in public sector are heavy investors, they probably make a negative contribution (35). Such a state of affairs cannot provide scope for the development of the public sector, or for the economy as a whole.

Therefore, the purpose of price policy in public sector should be such that it will generate forces for economic growth. It must build sufficient reserves for ploughing back profits. This would reduce the need for borrowing outside capital and thus decrease interest commitments. Secondly, there should be adequate funds for improvement, modernisation and expansion. This, of course, does not mean that the entire cost of improvement etc. should be borne from profits. Because if the entire cost of expansion is covered from profits, it will involve too large a rise in the price of these commodities. Thirdly, public enterprises should also contribute something towards general revenues. As the Planning Commission points out, when taxation has its limits, public Exchequer should benefit by the surplus

of public enterprises. There might be a limit to the general contribution in order to avoid excessive increase in the burden on consumers. But when private sector pays a portion of its profits for general revenues, there is no reason why the public sector should be exempted from this.

The genesis of all this is that there should be a *price and profit policy for public enterprises which would make the State increasingly reliant on its own resources, as distinguished from taxing the personal income of its citizens* (36). This was first enunciated at the All India Congress Committee Seminar on Planning held at Ooty in June 1959 and agreed to by the Planning Commission. This, however, does not mean that there is unanimity of opinion in India regarding this policy. For instance, Dr. A.K. Das Gupta in his note on the subject (37) pointed out that it was doubtful whether the principle of profit maximisation, even in the context of growth, could be accepted without reservation. Cases where the product of one public enterprise was complementary to the product of another were an obvious exception. More important was the case where the profit of a public enterprise was used as material for production in the private sector. He, therefore, concluded, 'where the majority of industries, including consumer goods industries, are nationalised, as in the socialist countries of Europe, and rapid economic growth is held as the primary objective of planning, the principle of maximum profit must be the guiding principle, - if possible, aided by different prices. But where, as in India, we have a mixed economy - where consumer

(36) Dr. V.K. R.V. Rao's Note to Ooty Seminar, op. cit.
(37) No 'No Profit, No Loss' - The Economic Weekly, Special Number July 1959.
goods industries are solely in the hands of the private sector and the public sector is predominantly interested in public utility enterprises, a general abandonment of the principle of 'no profit, no loss' in favour of the business principle of profit maximisation may turn out after all to be a misleading half-truth even in the context of growth (38).

This does not, of course, contradict our analysis. If there were any need to subsidise any sector of the private economy, this could be done directly without sacrificing the business principle of profit maximisation. Moreover, we have already seen that there is a great scope for increasing the public sector in India so as to partake some of the characteristics of socialist economies of Europe. In the context of growth and socialist objective of the economy, the principle of maximum profit seems to be the desirable principle.

Dr. Das raises objections of a different type. He does not object to the price of a product being so fixed as to leave a reasonable surplus for reinvestment in that particular undertaking. "But when the price is rigged up to provide a surplus for use in other branches / departments of government, it raises the pertinent question why only the consumers of that particular product should be made to pay for the benefit of the rest of the community a special tax through a backdoor" (39). This objection does not hold much water in view of the fact that public enterprise itself is fostered at the expense of the State. If investment in public sector could attract resources from other sources, the profits of public sector industries should contribute to the financing of the country's economic development.

(38) Ibid, p.974.
(39) N. Das: The Public Sector in India, op. cit., p.116.
How much profits:

The only valid objection of Dr. Das seems to be that in enterprises in which government has a monopoly or near monopoly, there would be a great temptation to create huge surpluses (profits) by charging the users very high prices. In a private enterprise economy, competition, however imperfect, provides a natural safeguard for the consumer. In a public undertaking, on the other hand, it is relatively easy on the part of the government to inflate the price of the product and exploit the consumers. Even in democracies, parliamentary control is not effective to regulate the policies of the government, especially if the government in power has large majorities.

The remedy in this case is not the elimination of profit policy, but the regulation of price and profit policy in the interest of the consumers. This leads us to an examination of the size of profits that should be earned in public enterprises.

It is, however, difficult to fix any particular rate of profit for all industries. Even if profit ability is to be the rule, all industries cannot earn profits. Enterprises which are not in full operation cannot earn profits in the early stage as the overhead expenses will have to be spread over a small quantity of production. In some other industries where the gestation period is long and initial stage is full of experimentation, profit cannot be of immediate concern. In enterprises like Iron and Steel, initial investment is likely to be heavy and the cost of production might exceed that of private units in early stages of production. Profit in such cases might jeopardise public interest. Some industries which are essential for economic development may be allowed to run at a deficit for sometime in order to promote other economic
activities. For example, promotion rates may be charged in cases of electricity, urban water supply or irrigation. However, in each and every case, ultimate objective should be profitability. Moreover, in case of industries running at a deficit, subsidies should be given only for a limited period and even during this period, it is necessary to stress the need for adequate and proper accounting, auditing and financial reporting by all public undertakings. 'It is desirable that there should, as the Taxation Enquiry Commission points out, be a statutory provision applicable to all public undertakings (including those departmentally managed) to maintain accounts in conformity with proper commercial standards'.

But in case of all other commercial and industrial undertakings which are already complete there should be a reasonable rate of return. Recent investigations into company finances of many countries have brought out the fact that in case of successful companies, besides yielding an attractive rate of dividend, the profits after taxation are high enough to finance a substantial part of the expansion programmes. If the public enterprises are to grow rapidly, this scale of profits will have to be insisted upon as a rule (40). The Tariff Commission, which on the course of its fair price inquiries has to be concerned with the question of a reasonable rate of return, has permitted high profit rates even in basic industries. For instance, in the case of cement industry, the Commission allowed for a 10 - 12 per cent return on all employed capital in private cement factories. This was in addition to the usual depreciation allowances and a special rehabilitation allowance of Rs.4 per ton on cement manufactured with the help of the equipment installed.

(40) Lakdawala, op. cit. p.398.
prior to 1949 (41). Public enterprises should normally try to earn such a rate of return.

It follows from this that the rate structure should be such that normal prices should cover besides working costs, depreciation allowances on business principles, interest on borrowed capital and a reasonable rate of return for expansion. But it should not impose undue hardship on the community. To ensure this a permanent price-fixing Commission may be instituted to advise the government regarding the prices of different industries. The Commission in determining the prices of public enterprises should consider the fulfilment of certain primary economic aims like (a) the maximum utilisation of the existing capital, (b) accumulation at the projected rate, (c) the stimulation of certain types of consumption at the expense of others, (d) the provision of incentives to efficiency and (e) scope of surplus for the development of the economy. The Commission should continuously review the working of different public enterprises and determine price and profit policy both from the point of view of the economy and the consumers of the particular products.

If in some cases, profit would be sacrificed, it is with a view to increasing economic progress or overcoming initial difficulties of the industries concerned. But in all these cases, interim prices should reveal efficiency and in no case, should deficits be covered quietly without the concurrence of the Parliament. The ultimate goal should be reasonable rate of profit to obtain additional resources for expanding economic activity.

(41) Report of the Revision of Fair Price Payable to Cement Producers, 1958, paras 8 & 9, Quoted from Lakdawala, op.cit.
In fact, in case of the Socialist countries, profits from public enterprises, have played an important part for financing economic development. In Soviet Union, all prices are fixed in advance by the Plans. They are made up of the following elements: average (not marginal) costs of production (including the cost of transportation and marketing), the planned profit of the producing establishments, and (in the case of commodities sold after they have left the factory or farm) the turnover tax. Part of the profits is retained by the establishment for its own capital needs and bonuses paid to management for superior efficiency; the remainder goes to the State in the shape of profit tax. Thus public enterprises in Russia make a double contribution to development finance—reinvestment of profits for their own expansion and contribution to the State budget for general development. Over the course of years emphasis has been progressively shifting to the latter (42). According to the Taxation Enquiry Commission, only about 10 per cent of the public revenues in the U.S.S.R. is derived from general taxation and loans, and the remainder, from the profits of national enterprises and the turnover tax on the products of public enterprises (43). In other centrally planned economies, the position is not dissimilar, though reliance on public enterprise may not be as large.

In Communist China, income from State enterprises is also growing in importance. In the year 1951, income from State-owned enterprises constituted 34 per cent of the total revenue and it is estimated to have increased to 69 per cent.


in the year 1954. *State owned enterprises have by now attained such a commanding position in the economy that the surplus which they earn contributes substantially to the financing of economic development*.

In some of the private enterprise economies, profits from public enterprises are also a growing source of revenue. In Chile, Philippines and Puerto Rico, profits made in the government or government sponsored projects are deliberately used as a source of finance for further development. In some of the underdeveloped countries, where one or two basic raw materials occupy an important place in their export trade, State trading has often provided sufficient amount of revenue. State trading and State monopoly in rice and timber in the economy of Burma has been responsible for sizeable revenues to the Exchequer. In 1952-53 and 1953-54 the contribution made by the State Agricultural Marketing Board accounted for about one-half of total governmental revenues. In Thailand, the revenue from fiscal monopolies in opium, alcohol, tobacco, playing cards and lotteries in 1951-52 was estimated at 12 per cent of total revenue. The export trade in rice also made a net contribution in 1951-52 of about 10 per cent of government revenue receipts. The government of Japan also makes sizeable net profits from State monopolies in tobacco, salt, camphor and alcohol (44).

Some of the Middle Eastern countries obtain substantial revenue from non-tax sources. In Iran, these formed about 30 per cent of the total estimated current revenue in 1949-50. Iraq gets about one-fifth of its current revenues from oil royalties, tobacco monopoly and other non-tax sources. In most non-collectivist countries, however, non-tax revenues still remain relatively unimportant, though such State activities

in the economic sphere as give rise to non-tax incomes have, speaking generally increased in recent years (45).

**The case of India:**

So far, public enterprises in India have not yielded substantial revenue. The important enterprises managed by the State governments are forests, irrigation, electricity, road and water transport and State industries. Table VII-4 shows a break-up of net revenues from public enterprises in all the States collectively.

Table VII-4 shows that the most important enterprise at the State level is forests and net revenue from this source has recorded some increase during the period 1951-52 to 1960-61. But since 1960-61 the yield is in a stand still position. Irrigation and electricity schemes have not shown any improvement during the first and second Plan period. The deterioration in net receipts from irrigation and electricity undertakings was particularly disturbing in 1957-58 and this was noted by the Second Finance Commission (46). With regard to the working of transport, industrial and commercial undertakings, there was accumulation of losses in more than one State (47).

Chief among the Central public enterprises are the railways, iron and steel, oil, fertilisers, ship-building, air-craft, heavy engineering, machine tools, locomotives and coaches, fishing, antibiotics, paper, Life Insurance, State Trading Corporation and Small Industries Corporation. Table VII-5 shows the break-up of net contributions by public undertakings in India to the Union Government.

(45) Ibid, p.171.
(47) Ibid, p.32.
### Table VII - 4
Net Revenues from Public Enterprises in States in selected years.

|----------------------|---------------------|-------------------|--------------------------------------|---------------------|---------------------|------------------------------------|----------------|
### TABLE VII - 5

**Net Contributions by Public Undertakings to the Union Government in selected years.**

( Rs. crores )

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net contribution of public undertakins (1+2+3+4)</td>
<td>23.16</td>
<td>28.92</td>
<td>115.06</td>
<td>36.27</td>
<td>53.00</td>
<td>210.93</td>
<td>73.42</td>
</tr>
<tr>
<td>(1) Railways</td>
<td>6.50</td>
<td>5.80</td>
<td>33.47</td>
<td>6.29</td>
<td>4.77</td>
<td>28.81</td>
<td>21.04</td>
</tr>
<tr>
<td>(2) Post and Telegraphs</td>
<td>3.98</td>
<td>3.47</td>
<td>13.77</td>
<td>3.71</td>
<td>0.46</td>
<td>22.04</td>
<td>0.79</td>
</tr>
<tr>
<td>(3) Currency and Mint</td>
<td>9.71</td>
<td>19.75</td>
<td>66.31</td>
<td>26.04</td>
<td>47.95</td>
<td>159.36</td>
<td>49.30</td>
</tr>
<tr>
<td>(Profits of the Reserve (9.91) Bank of India)</td>
<td>(20.00)</td>
<td>(65.84)</td>
<td>(30.00)</td>
<td>(40.00)</td>
<td>(160.00)</td>
<td>(43.50)</td>
<td></td>
</tr>
<tr>
<td>(4) Others.</td>
<td>2.97</td>
<td>-0.10</td>
<td>1.51</td>
<td>0.23</td>
<td>-0.18</td>
<td>0.22</td>
<td>2.29</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Bulletin, April 1962, Table 2, p.524.
Table VII-5 reveals that in the Central budget, currency and mint occupies the first place, followed by the Railways. Others account for a negligible amount of revenue.

The Central Statistical Organisation has recently assembled data regarding the working results of principal public sector undertakings - industrial as well as non-industrial (48). The Industrial undertakings are grouped under two heads, namely, those which are completed and in full operation and those which are incomplete and not in full operation. Table VII-6 gives a broad picture of the capital structure and net profit before taxation of 19 completed industrial undertakings as presented by the Central Statistical Organisation.

**TABLE VII - 6**

Capital Structure and net profit of Public Sector undertakings.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the concern</th>
<th>Total capital employed (₹.lakhs)</th>
<th>Net profit before taxation (₹.lakhs)</th>
<th>Net profit as % of capital employed</th>
<th>Accounting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indian Rare Earths</td>
<td>138.0</td>
<td>- 1.2</td>
<td>-</td>
<td>1958-59</td>
</tr>
<tr>
<td>2</td>
<td>Travancore Minerals</td>
<td>50.5</td>
<td>17.0</td>
<td>33.7</td>
<td>-do-</td>
</tr>
<tr>
<td>3</td>
<td>Hindustan Antibiotics</td>
<td>277.3</td>
<td>147.1</td>
<td>53.0</td>
<td>-do-</td>
</tr>
<tr>
<td>4</td>
<td>Hindustan Cables</td>
<td>194.0</td>
<td>9.4</td>
<td>4.8</td>
<td>-do-</td>
</tr>
<tr>
<td>5</td>
<td>Hindustan Insecticides</td>
<td>122.3</td>
<td>19.4</td>
<td>15.9</td>
<td>-do-</td>
</tr>
<tr>
<td>6</td>
<td>Hindustan Machine Tools</td>
<td>724.3</td>
<td>33.0</td>
<td>4.6</td>
<td>-do-</td>
</tr>
<tr>
<td>7</td>
<td>Nahan Foundry</td>
<td>49.0</td>
<td>1.0</td>
<td>2.0</td>
<td>-do-</td>
</tr>
<tr>
<td>8</td>
<td>National Newsprint &amp; Paper Mills</td>
<td>621.0</td>
<td>38.5</td>
<td>6.2</td>
<td>-do-</td>
</tr>
<tr>
<td>9</td>
<td>National Instruments</td>
<td>126.0</td>
<td>2.9</td>
<td>2.3</td>
<td>-do-</td>
</tr>
</tbody>
</table>

Table VII-6 shows that net profit before taxation (or, net profit after depreciation and interest charges) as percentage of capital employed is disconcerting. Only Travancore Minerals, the Hindustan Antibiotics and the Hindustan Insecticides show some good results. The low rates of net profit in some of the undertakings may be due to the fact that they are not working to their full capacity, but this is not the case with all units. It is, therefore, a problem to bring out a sizeable surplus from these industrial undertakings. No statistical interpretation is possible with regard to incomplete industrial undertakings.

Net profit of non-industrial public undertakings as percentage of capital employed is also insignificant. However,
it may be stated that while the employment potential of and
the income generated through wages and salaries by these concerns
are greater than those of industrial public enterprises for
comparable volumes of capital investment, their profit making
capacity seems to be generally limited. Some of the concerns are
not also intended to make profit. Table VII-7 shows relevant data
regarding capital structure and net profit of 20 non-industrial
public undertakings.

**TABLE - VII - 7**

Capital structure and Net Profit of Non-industrial
Public Enterprises

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of concern</th>
<th>Total capital employed</th>
<th>Net profit before taxation (Rs. lakhs)</th>
<th>Net profit as % of capital employed</th>
<th>Accounting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Export Risks Insurance Corporation.</td>
<td>50.0</td>
<td>2.6</td>
<td>5.2</td>
<td>1958-59</td>
</tr>
<tr>
<td>2</td>
<td>Indian Handicrafts Dev. Corpn.</td>
<td>10.0</td>
<td>-3.3</td>
<td>-</td>
<td>-do-</td>
</tr>
<tr>
<td>3</td>
<td>National Small Industries Corpn.</td>
<td>310.7</td>
<td>N.A.</td>
<td>-</td>
<td>-do-</td>
</tr>
<tr>
<td>4</td>
<td>National Industrial Dev. Corpn.</td>
<td>266.0</td>
<td>N.A.</td>
<td>- Cal.Yr.'58</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>State Trading Corpn.</td>
<td>346.7</td>
<td>105.1</td>
<td>30.3</td>
<td>1957-58</td>
</tr>
<tr>
<td>6</td>
<td>Industrial Finance Corpn.3476.3</td>
<td>73.1</td>
<td>2.1</td>
<td>-</td>
<td>1958-59</td>
</tr>
<tr>
<td>7</td>
<td>Life Insurance Corpn.</td>
<td>500.0</td>
<td>N.A.</td>
<td>- Cal.Yr.'58</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Refinance Corpn. for Industry.</td>
<td>750.0</td>
<td>11.3</td>
<td>1.5</td>
<td>-do-</td>
</tr>
<tr>
<td>9</td>
<td>Reserve Bank of India. 35193.8</td>
<td>4006.2</td>
<td>11.4</td>
<td>-</td>
<td>1958-59</td>
</tr>
<tr>
<td>10</td>
<td>State Bank of India. 562.5</td>
<td>187.1</td>
<td>33.1</td>
<td>Cal.Yr.'59</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Central Ware Housing Corporation.</td>
<td>110.3</td>
<td>4.3</td>
<td>3.9</td>
<td>1958-59</td>
</tr>
<tr>
<td>12</td>
<td>National Projects Construction Corpn.</td>
<td>124.3</td>
<td>3.7</td>
<td>3.0</td>
<td>-do-</td>
</tr>
<tr>
<td>13</td>
<td>Employees State Insurance Corporation.</td>
<td>-</td>
<td>234.9</td>
<td>-</td>
<td>1957-58</td>
</tr>
<tr>
<td>14</td>
<td>Rehabilitation Finance Administration.</td>
<td>963.5</td>
<td>0.8</td>
<td>0.1 Cal.Yr.'58</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>National Research Dev. Corporation.</td>
<td>10.1</td>
<td>-3.4</td>
<td>-</td>
<td>1958-59</td>
</tr>
</tbody>
</table>
Table VII-7 shows that net profit as percentage of capital employed is encouraging only with regard to the State Trading Corporation, Reserve Bank of India and the State Bank of India. Most of the others cannot be expected to compare favourably with purely industrial enterprises in the public sector in respect of profit since they are designed to operate with a pronounced promotional bias in their financing activities.

The Union Ministry of Finance in its first annual report of the working of forty-two commercial and industrial undertakings of the Central Government, presented to Parliament on the 7th September, 1962, has given an overall assessment of the performance of the non-departmental undertakings (49). The Report divides government undertakings into four broad categories: (i) those under construction (9), (ii) completed ventures not fully commissioned (1), (iii) running concerns (26) and (iv) promotional and developmental enterprises (6). (Figures in brackets indicate the number of enterprises in each category).

This Report differs from the study of the Central Statistical Organisation entitled Principal Public Sector

(49) The annual report of the working of forty-two commercial and industrial undertakings of the Central Government in 1960-61.
Undertakings in India - 1960-61 in the sense that the latter covers a much wider ground giving information about 63 undertakings including the departmentally run Railways, Post and Telegraphs, the State Bank, the Reserve Bank etc. Apart from the better rationale of isolating the enterprises that are functioning more or less regularly in a category of its own, the present Report gives a far better picture of the profit performance of the various concerns individually and in their totality. The C.S.O. study does make an attempt to give the total picture of what might be called balance sheet items, like capital, reserves, block and other assets. But it does not give the picture of total profits and the disposition of these profits.

The Report shows that the total investment by the Central Government as at the end of 1960-61 in these 42 undertakings was Rs.953 crores consisting of equity capital of Rs.556 crores and loan capital of Rs.397 crores. By categories of undertakings, it will be seen that the biggest investment, Hindustan Steel, is yet nominally unproductive, that is to say, not fully commissioned. It accounts for Rs.606 crores and 63.6 per cent of the total investment. Running concerns account for Rs.212 crores, that is to say 22.2 per cent of the capital deployed.

From the point of view of an assessment of profit earning performance, the immediately relevant category is one pertaining to "running concerns". A broad picture of the capital structure and working results of the "running concerns", as of 1960-61, is given in table VII - 8.
### Public Sector Running Concerns
**As of 1960-61**

( Rs. in lakhs)

<table>
<thead>
<tr>
<th>Name of the concern</th>
<th>Paid-up Capital</th>
<th>Gross Profit (a)</th>
<th>Net Profit (b)</th>
<th>Net profit as p.c. of paid-up capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Air India International</td>
<td>913</td>
<td>117</td>
<td>68</td>
<td>7.4</td>
</tr>
<tr>
<td>2. The Ashoka Hotels</td>
<td>150</td>
<td>12</td>
<td>12</td>
<td>2.3</td>
</tr>
<tr>
<td>3. Bharat Electronics</td>
<td>521</td>
<td>-</td>
<td>12</td>
<td>2.3</td>
</tr>
<tr>
<td>4. Fertiliser Corpn. of India (Sindri)</td>
<td>1700</td>
<td>83</td>
<td>48</td>
<td>2.8</td>
</tr>
<tr>
<td>5. Hindustan Aircraft</td>
<td>1875</td>
<td>65</td>
<td>62</td>
<td>3.3</td>
</tr>
<tr>
<td>6. Hindustan Antibiotics</td>
<td>247</td>
<td>140</td>
<td>81</td>
<td>32.8</td>
</tr>
<tr>
<td>7. Hindustan Cables</td>
<td>125</td>
<td>26</td>
<td>16</td>
<td>13.0</td>
</tr>
<tr>
<td>8. Hindustan Housing Factory</td>
<td>40</td>
<td>6</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>9. Hindustan Insecticides</td>
<td>97</td>
<td>27</td>
<td>18</td>
<td>19.0</td>
</tr>
<tr>
<td>10. Hindustan Machine Tools</td>
<td>531</td>
<td>78</td>
<td>74</td>
<td>13.9</td>
</tr>
<tr>
<td>11. Hindustan Salt</td>
<td>24</td>
<td>-6</td>
<td>-6</td>
<td></td>
</tr>
<tr>
<td>12. Hindustan Shipyard</td>
<td>560</td>
<td>2</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>13. Indian Airlines Corpn.</td>
<td>848</td>
<td>7</td>
<td>5</td>
<td>0.6</td>
</tr>
<tr>
<td>14. Indian Rare Earths</td>
<td>100</td>
<td>-</td>
<td>4</td>
<td>5.2</td>
</tr>
<tr>
<td>15. Indian Oil Company</td>
<td>57</td>
<td>-3</td>
<td>-3</td>
<td></td>
</tr>
<tr>
<td>16. Indian Telephone Industries</td>
<td>400</td>
<td>54</td>
<td>19</td>
<td>4.7</td>
</tr>
<tr>
<td>17. Nahan Foundry</td>
<td>40</td>
<td>5</td>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>18. National Coal Dev. Corporation</td>
<td>2540</td>
<td>152</td>
<td>104</td>
<td>4.1</td>
</tr>
<tr>
<td>19. National Building Construction Corpn.</td>
<td>3</td>
<td>-1</td>
<td>-1</td>
<td>-</td>
</tr>
<tr>
<td>20. National Instruments</td>
<td>91</td>
<td>8</td>
<td>5</td>
<td>4.9</td>
</tr>
<tr>
<td>21. National Projects Constrn. Corpn.</td>
<td>113</td>
<td>2</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>22. Praga Tools</td>
<td>137</td>
<td>2</td>
<td>3</td>
<td>2.3</td>
</tr>
<tr>
<td>24. State Trading Corpn. of India</td>
<td>200</td>
<td>273</td>
<td>145</td>
<td>72.2</td>
</tr>
<tr>
<td>25. Shinning Corpn. of India(c)</td>
<td>1000</td>
<td>58</td>
<td>12</td>
<td>1.8</td>
</tr>
</tbody>
</table>

*(1) Eastern Shipping Corporation.*
(Table VII-8 Continued.)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) Western Shipping Corporation</td>
<td>1290</td>
<td>191</td>
<td>41</td>
<td>29</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>26. Travancore Minerals</td>
<td>50</td>
<td>-</td>
<td>13</td>
<td>8</td>
<td>16.2</td>
<td></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>14,147</td>
<td>6209</td>
<td>1182</td>
<td>774</td>
<td>5.5</td>
<td></td>
</tr>
</tbody>
</table>

(a) Profit after allowing for depreciation but before providing for interest, taxation or allocation to reserves.

(b) Profit after providing for depreciation, interest, taxation but before allocation for reserves.

(c) The two Shipping Corporations were merged in 1961 into a single Corporation called the Shipping Corporation of India Ltd.

It is evident from table VII-8 that although unit-wise picture is rather uneven, most units, whether industrial or non-industrial, seem to be well set on the road of profit earning. The table shows that 23 out of the 26 concerns have yielded a profit of 7.83 crores while the other three suffered losses amounting in all to about Rs. 9 lakhs. This net of taxes and interest payments. A rather common measure is the percentage of gross profit on sales, which works out to about 8 per cent.

As percentage of capital employed, the gross profit works out at 5.4 per-cent. As percentage of paid up capital, the net profit is put at 5.5 percent. This cannot be considered a bad showing considering that most of the units were less than ten years old in that year.

However, doubt is expressed when it is estimated that public enterprizes would contribute Rs. 450 crores towards the financing of the third Plan. During the first and second Plans, the only public enterprize that made substantial contribution to the planned outlay was the Railways, a departmental concern. The Railways contributed Rs. 115.4 crores to the first Plan, which
was 5.7 per cent of the total outlay on the Plan in the public sector. In the second Plan, the total contribution of the Railways was Rs.150 crores of rupees (inclusive of increased fares and freights). This was about 3.3 per cent of total outlay in the public sector. Both in the first and the second Plan, there was practically no surplus from other public enterprises for planned economic development. In view of the tardy development of public sector undertakings, it may not be possible to generate sufficient surplus from the public undertakings for planned development.

**Conclusion:**

The analysis shows that the net contributions of public undertakings are not important at the present time. Moreover, only a portion of the contributions is available for Plan finance, and the rest is merged with general revenues. Therefore, there is reasonable ground to believe that profits of public enterprises may not play an important part in providing necessary finance for economic development in near future. However, if a sound price policy is followed and deliberate attempt is made to earn profits, we may be able to increase the share of public sector undertakings towards the financing of the Plan. The size of the public sector has been enlarged especially during the second Plan period. Most of these investments are productive in character. If they can be run with efficiency, substantial profits may be realised from these enterprises (50).

(50) Efficiency means increase in sale price and reduction in cost of production. Reduction in cost of production can be attained by reducing underemployment in public enterprises and increasing the productivity of labour. Increase in sale price is possible, among other things, in increasing the quality of the commodity.
Moreover, so far there has been no deliberate attempt to make profits. For example, Railways do not aim at maximising profits, although they emphasise on the principle of 'what the traffic would bear' and on charging 'reasonable rates and fares'. Their main responsibility is to provide transport at the cheapest rates to the public, while maintaining their financial solvency and providing means for their development. Similarly, the price of Sindri fertilisers is governed by consideration of costs and foreign price and also the purchasing power of consumers. The price of salt is fixed on a 'no profit, no loss' basis without even recovering the interest on capital. The State is meeting losses in selling ships produced at Hindustan Shipyard. The pricing policies of commercial and industrial undertakings of State governments vary, and are not always based on strict commercial principles. If the government decides to change the policy and makes an earnest effort to earn profits, contributions of public enterprises to the financing of the development of the country can be enlarged.