PART I

Financial Organisation
CHAPTER I

PHILOSOPHY OF PUBLIC ENTERPRISE AND ITS EVOLUTION IN INDIA

Public enterprises may be described as such Industrial, Commercial or Financial Institutions which are set up by State; or such economic activities in which the State acts as entrepreneur. Encyclopaedia Britannica says that 'Although there is no standard definition of public enterprise the term usually refers to Government ownership and active operation of agencies engaged in supplying the public with goods and services which alternatively might be supplied by privately owned profit-motivated firms (private enterprise)'.

According to Hanson, 'The whole process of development might be described as public enterprise'. But in a more restricted and more familiar sense he uses the term 'Public Enterprise' to mean 'State ownership and operation of industrial, agricultural, financial and commercial undertakings'.

Under section 617 of the Indian Companies Act, 'A Government Company means any company in which not less than 51 per cent of the share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments.'

2 The Companies Act 1956 (Number 1 of 1956)
It is evident that the emphasis of all these definitions is upon ownership and control and, therefore, it can be said that when the ownership of an industrial and commercial concern and control of its operations is vested in Government then it is called a 'public enterprise'. Sometimes it may happen that the management of a concern under State ownership may be entrusted to a private agency because the State may find it expedient, because of lack of business skill, technical know-how and experience to do so. But in doing so the concern does not lose its character of being a public enterprise. For example, the management of Rourkela Plant of Hindustan Steel was entrusted to the German firm, Krupp and Demag; or the Sindri Fertilizers and Chemicals was managed by Chemical Construction Corporation of America for initial establishment. Conversely, mere control of a concern by the State does not bring it in the fold of public enterprise.

Under the Industrial Regulation and Control Act, the State may take over the management and control of a mis-behaving or mis-managed concern. But such measures are of temporary character. Taking over the management of Jayanti Shipping Company is a case of this type.

There are industries and commercial concerns which Government merely assists, there are those it controls and there are others it owns. These last are wholly or partly financed and controlled by the Central
Government or State Governments or sometimes by both.
Such concerns are termed 'State Enterprises'. Therefore, public ownership is essential although management may not rest with the Government.

Public enterprises as explained here must be distinguished from 'Nationalized Industries' in England, although in a loose sense the two terms are considered to convey the same meaning. In England all State Enterprises are nationalized or State acquired. All such industries had already been in existence with all the advantages of an experienced private management. Government did not perform the entrepreneurial or promotional functions. Well-established running concerns were taken over by the State by nationalization, viz., Coal Gas, Iron and Steel Industries, etc., etc.

But all such advantages are not available in the case of public enterprises started from the scratch. In the case of such public enterprises, as in India, Government have to conceive, plan and start and undergo all the troubles during the formative period. All functions of an entrepreneur have to be performed by the States. Hence the two terms are not synonymous and have different connotation.

MOTIVATIONS:
State may be motivated due to several considerations, socialistic and non-socialistic, for the creation

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of public enterprises. Such considerations may be:

1. Fiscal;
2. Security;
3. Developmental;
4. Social; and
5. Political.

**FISCAL:**

Every Government needs funds to run the state administration, defence, maintenance of law and order, education, public health and for several other social obligations huge finances are required. Government would like to tap all sources of revenue. For administrative machinery finance is what petrol is for car. Some enterprises may be run by the Government to earn revenue. In India, the opium industry was managed by the State from the fiscal point of view.

**SECURITY:**

Sometimes from secrecy and security point of view it is not considered desirable to allow the private sector to take part in certain activities though of commercial character. Such activities are exclusively controlled by the Government of India. The Security Press, Mint, Ordnance factories, Rare Earth Factory, Atomic Energy and similar other enterprises are owned and operated by the State for security reasons. Under Five Year Plans all industries which are of strategic importance or defence-oriented are exclusively reserved for the public sector on security reasons. During national emergency
certain other industries like automobile and aircraft manufacturing plants are likely to be brought under State control for the same reason.

**DEVELOPMENTAL:**

It is the most important reason for the State to start public enterprises. Industries which are beyond the capacity of the private sector or when the private initiative is shy, the State has to intervene in public interest. River Valley Schemes; Hydro-Electric Projects; Construction of dams and multi-purpose projects, major industrial projects like the Iron and Steel, Fertilizers, Heavy Engineering and Heavy Electrical equipment manufacturing concerns, are some of the enterprises of this nature.

**SOCIAL:**

Generally state is motivated by social considerations to start public enterprises. In a democratic set-up it is all the more important for the State to embark upon such projects as may bring greater social benefits to its people. National extension schemes and Community Development Projects started in India, are the glaring examples of such enterprises. During the 1930's a number of theories of Welfare Economics were worked out. The public works policy pursued in Britain, the New Deal Policy of F.D.Roosevelt and the Tennessee Valley Authority in the United States of America are examples of the social motive of public enterprises.
POLITICAL:

Very often public enterprises are started with political motives. Party in power takes steps to curb the powerful influences of its adversaries by nationalisation of their industry or by starting public enterprises in that field. Sometimes public enterprises may be started to loosen the grip of foreign interests over the economy, as foreign trusts lost their economic power in Poland after World War II. In India the developmental and social considerations have been predominating in launching public enterprises.

HISTORICAL BACKGROUND—PRE-INDEPENDENCE:

In the good old days it was no business of the State to interfere in the economic affairs of her people. Industry, trade and commerce were left entirely to the people of the State. Government's main responsibility was to maintain law and order internally and to save the country from external aggression. The old proverb that 'When King trades the country is ruined' was very much respected.

Adam Smith and the other early economists adhered to 'laissez-faire' largely because the Governments of their day were notoriously inefficient and corrupt. It was for this reason that they sought to confine the activities of Government within the narrowest practicable limits, so as to minimise the damage they might do.
In a capitalist economy public enterprises were unimportant because industry and trade did not form part of Government functions.

But those days with the old concepts are dead and gone. The world has travelled a long way from the time when the above belief was held in respect. Circumstances have compelled most modern States to take prominent part in industrial and commercial matters and not a few find themselves discharging functions which in the past would have been left to the trader and the manufacturer. The old 'laissez-faire' policy of Adam Smith and others has become obsolete. The affairs of Government, industry and trade have somehow got so mixed up that the question of complete separation can no longer arise. Government's intervention may be by way of advice and instruction through control to the actual financing and management of industrial and commercial enterprises. In India we have examples of many of these stages.

The evolution of the public sector in the economy and polity of India is very recent one. Unlike in Western countries, its history in India can be compressed within the last twenty years, or to be more precise, within the period following the attainment of Independence in August, 1947. It is a strange and fascinating story- with a uniqueness of its own and relatively free from the doctrinaire ideologies which have accompanied
the development of the public sector in such countries as the U.S.S.R. and China.

The oldest State enterprise in India is the Posts and Telegraphs Department. The protection of the State being essential to secure the safe carriage of letters in the troubled times of the past, the postal service became a function of the State and since administrative convenience and security were very important reasons for the introduction of the telegraph service, that too was included in the proper field of State action.

The first industrial enterprise of any magnitude was the Railways. Though the Railways were built by private companies in the past, but later, all Railways were taken over by the State. Thus Post and Telegraphs and Railways formed the bulk of older state enterprises on the civil side. Certain factories for the making of munitions and the supplying of special needs of defence were also set up at intervals under the auspices of the Defence Department of the Government of India.

The last World War brought about a remarkable development in the sphere of State enterprises. Government for the first time entered the field of wholesale and retail trade. The shortage of supplies that followed the loss of Burma and the inability of private enterprise to make any headway in the circumstances of the time
compelled Government to take over both the import and distribution of foodgrains.

About the end of war, the idea of planning which had aroused a great deal of enthusiasm became the accepted policy of Governments. With the formation of popular Government, the concept of the Welfare State obtained a strong hold upon the imagination of both, the people and Government. The impact of these conceptions accelerated the pace of public sector. Several large irrigation, flood control and hydro-electric projects were started. Government, more especially Provincial Governments, felt responsibility towards providing good and efficient transport facilities and thus extending their control to Road Transport.

When Independence came, India had a slender industrial base. Millions of her rural people suffered under the weight of a traditional agrarian structure. A long period of economic stagnation, against the background of increasing pressure of population, followed by the burdens of the Second World War had weakened the Indian economy. There was widespread poverty and want. The partition of the country had uprooted millions of people and dislocated economic life. Productivity in agriculture and industry stood at a low level. In relation to needs the available domestic savings were altogether meagre. The promise of freedom could only be redeemed if the economic foundations
were greatly strengthened.

POST - INDEPENDENCE (1947-51)

Ever since Independence, two main aims guided India's planned development— to build up by democratic means a rapidly expanding and technologically progressive economy and a social order based on justice and offering equal opportunity to every citizen. To change a traditional society into a dynamic one, in a country with a vast population rooted in the past, was a tremendous task. To do this through peaceful and democratic means and by the consent of the people, made this task even more difficult. It was inevitable that India should accept peaceful and democratic means as these had been the very methods it had adopted in its struggle for freedom.

Progressive socialisation of the means of production and equitable distribution of wealth have since been formed the nucleus of the industrial policy of the Government of India. However, it was clarified by the Prime Minister and other exponents of the Government policy that such socialisation will be of a pragmatic character without any doctrinaire bias. As a result public enterprises were slowly introduced to such industries where private sector was shy and where it was essential in national interest.
Planning is a must for developing countries. Economy based on agriculture is unstable, and that an exclusively agricultural country to sell primary products in exchange for manufactured goods will be condemned to remain in a position of weakness. Enduring progress postulates that industrial and agricultural development march together, which in turn, should be buttressed by improvement in services and administration. There is no easy road for economic prosperity. Progress can be achieved through trial and error. In a planned economy with a high degree of emphasis on public enterprise a higher standard of administration is a sine qua non. More than efficiency it requires an effective conscience. Thus public enterprises in India are the outcome of a growing tendency on the part of the Government to take more and more initiative in putting the productive resources of the country to the best possible use. The allocation of the resources in a planned economy of the controlled capitalism type must be done in such a manner as to avoid an unbalanced development and it must take into account the question of priorities and present needs. Accordingly "the Government's policy has been to concentrate its limited resources of money and experienced administration in starting, assisting or acquiring new industries which need state aid rather than by taking over existing industries which are well established".  

4 William Robson— India as a Welfare State in Political Quarterly, April-June, 1954.
The ownership and control of material resources of the community should be so distributed as best to subserve the common good in a welfare state and Government of India has accepted it as a principle among the Directive Principles of the State policy. Articles 38 and 39 of the Constitution of India say:-

"The State shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic and political, shall inform all the institutions of national life.

Further that-

The State shall, in particular, direct its policy towards securing:-

a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

In spite of the fact that private enterprise has been given a fair field, fair chance and fair profit, but it did not come forward to invest in such industries which were very essential for the economic growth of the country. The need for development is even greater in producer goods industries like Iron and Steel, Fertilizers, Machine Tools where private initiative is not forthcoming. The running of multipurpose projects is a new experience involving a number of important problems which are of national importance
and hence cannot be left in private hands. Public enterprises are found almost in every country and according to Robson "They constitute the most significant development in the field of political institutions which has taken place during the present century." The need of public enterprises is even greater in a planned economy. The State sometimes has taken to production and distribution of goods in order to remove the suspicion and distrust from the economic field and sometimes it had to take initiative in the industrial field in order to supply efficient service and produce low priced goods. State Trading in foodgrains and the recent taking over the distribution of cement by the Cement Corporation of India with effect from 1st January, 1968, are examples of this nature. In brief, the new approach of public ownership is argued in terms of public accountability, of planning against unemployment, of more opportunities for promotion by ability, of the extension of industrial democracy and of general desirability of replacing motive of private profit by those of responsibility and service to the community.

If planned economy has been accepted, a realistic plan can only be created and carried out when means of realising it are at the disposal of the State. It is possible to guide a state organism like a ship in a definite direction if one holds the rudder. The rudder in this case

5 William Robson—Public Enterprise—A Study in Social Ownership and Control in Great Britain.
is the essential branches of national economy such as production of coal, iron, steel, electric power, fertilizer, machine tools, etc., etc. Without holding the rudder there is no plan.

**PHILOSOPHY OF PUBLIC ENTERPRISE:**

The extension of public enterprise in Indian economy has not come about fortuitously. It is backed by a social and economic philosophy. This philosophy has been spelt out in Plan Reports and Government's Industrial Policy Resolutions of 1948 and 1956. Broadly speaking, the economic objectives behind this extension is to help in building up the economy by undertaking enterprises which are basic from the point of view of economic growth and which, nevertheless, either by virtue of the size or capital involved or other reasons are not likely to be taken up by the private sector. The social objective is the prevention of concentration of wealth and economic power in a few hands and to own and control the material resources of the community and to distribute them in such a manner as to benefit the common man.

The Industrial Policy Statement 1948 begins by saying that "any improvement in the economic conditions of the country postulates an increase in our national wealth; a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty." The objective of Industrial Policy was to promote a rapid rise in the
standard of living of the people by exploiting the latent resources of the country, by increasing production and by offering opportunities to all for employment in the services of the community. It was decided:

a) that the manufacture of Arms and Ammunition, the production and control of Atomic Energy and the ownership and management of Railway transport shall be exclusive monopoly of the Central Government and that the Government shall have the power to take over any industry vital for national defence;

b) that the State authorities shall be exclusively responsible for the establishment of new undertakings in coal, iron and steel, aircraft manufacture, ship building, the manufacture of telephone, telegraph and wireless apparatus and mineral oils except where in the national interest the State finds it necessary to secure the cooperation of private enterprise, subject to such control and regulations as the Central Government may prescribe; and

c) that the rest of the industrial field will normally be open to private enterprise, individual as well as cooperative, although the State will also progressively participate in this field and will not hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory.

According to this policy statement the Central Government reserved to itself all industries which were of strategic nature or of basic importance. Thus the foundations for a firm structure of public sector were laid under this policy.

It may be of interest to mention here that the book value of gross fixed assets owned by the Central and State Governments together with the working capital
in the enterprises concerned amounted to Rs. 875 crores at the end of 1947-48. By 1960-61, this had risen to Rs. 1,227 crores distributed as under:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Rupees in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railways</td>
<td>837</td>
</tr>
<tr>
<td>Irrigation works (including multi purpose River Valley Projects)</td>
<td>230</td>
</tr>
<tr>
<td>Communication &amp; Broadcasting</td>
<td>53</td>
</tr>
<tr>
<td>Electricity Undertakings</td>
<td>40</td>
</tr>
<tr>
<td>Industries</td>
<td>44</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td>10</td>
</tr>
<tr>
<td>Ports</td>
<td>8</td>
</tr>
<tr>
<td>Central Tractor Organisation</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Rs. 1,227</strong></td>
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</tbody>
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Even though the total investment stood at Rs. 1,227 crores, but as far as organised industry and commerce were concerned, the total investment stood at Rs. 44 crores only (both Central and State Governments) and it is evident that the public sector was playing a negligible role in the field of industry and commerce. Just before the start of the First Five Year Plan in 1951, there were only six (Annexure I) undertakings of the Central Government with the total investment of Rs. 29 crores.

**FIRST FIVE YEAR PLAN (1951-56):**

Government of India had set up a Planning Commission in March, 1950 to prepare plans for the economic development
of the country. The First Five Year Plan was conceived and prepared by the Commission with the above background of stagnating economy. "Regarding the objectives of the plan, the Commission said," The central objective of planning in India is to raise the standard of living of the people and to open out to them opportunities for a richer and more varied life. Our programme must, therefore, be two-fold, leading at once to increased productivity and reduction of inequalities." Towards the fulfilment of these objectives it was considered risky to go too far or too fast, but at the same time the results of not moving fast enough were no less serious. The greater the capacity of the community to hold together under the stress of major structural changes, the more rapid is the pace at which such changes in the economy can be made. In promoting capital formation on the required scale, in facilitating and in encouraging the introduction of new techniques, and in the over-all realignment of the productive forces and class relationship within society, the State had to play a crucial role. It required progressive widening of the public sector.

Regarding the role of public sector the first plan document points out, "The scope and need for development are so great that it is best for the public sector to develop those industries in which private enterprise is

6 The First Five Year Plan—Planning Commission, Government of India.
unable or unwilling to put up the resources required and run the risks involved." During the First Plan a sum of ₹ 52 crores was invested and fifteen new undertakings (Annexure II) were set up.

At the end of the first plan the number of public sector undertakings rose to 21 and the total investment stood at ₹ 81 crores.

The First Five Year Plan was an impressive step towards development. Over five years, national income (in constant prices) is estimated to have increased by 18 per cent and per capita by 11 per cent. Agricultural production increased 15 per cent and industrial production 32 per cent. Over 2.4 million hectares of land were brought under irrigation through major works, another 4 million benefited through smaller works. Electricity generation went up from 6,575 million kwh to 11,000 million kwh. The output of cement, an important indicator of the volume of investment in the economy, rose from 2.7 million to 4.6 million tons. Several important industrial projects in the public sector were completed, and investment in the private sector also rose. In the last year of the Plan, public development expenditure was about two-and-a-half times that in the first year; correspondingly, investment recorded a rise from 4.9 per cent of national income to 7.3 per cent.

SOCIALIST PATTERN OF SOCIETY:

The Directive Principles of State Policy were given a more precise direction in December, 1954 when

the Indian Parliament adopted the 'socialist pattern of society' as the objective of social and economic policy. This concept, which embodies the values of socialism and democracy and the approach of planned development, involved no sudden change, and had its roots deep in India's struggle for freedom. The 'socialist pattern of society' means that the primary criterion for determining the lines of advance must not be private profit but social gain and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increase in national income and employment but also in greater equality in incomes and wealth. The benefits of economic development must accrue more and more to the relatively less privileged classes of society, and a milieu should be created in which the small man has chances of rising in life.

For creating such an environment, the State has to take on heavy responsibilities. The public sector has to expand rapidly. It has to play a dominant role in shaping the entire pattern of investments—both private and public— in the economy and has to initiate developments which the private sector is unwilling or unable to undertake. The responsibility for new developments in certain major lines of activity which require the use of modern technology, large-scale production and a unified control and allocation of resources must be
undertaken in the main by the State. Public ownership, partial or complete, and public control or participation in management are specially required in these fields in which technological considerations tend towards a concentration of economic power and of wealth. Private enterprise has to play its part within the framework of the overall plan. In a growing economy there is scope both for public and private sectors to expand simultaneously, but if development is to proceed at the pace envisaged and is to contribute effectively to the larger social ends in view, it is inevitable that the public sector must grow not only absolutely but also relatively to the private sector.

The socialist pattern of society is not to be regarded as a set or rigid pattern. Each country has to develop according to its own genius and traditions, but it is important to stress certain basic values and the institutional arrangements implied in them. The accent of the socialist pattern is on the attainment of positive goals; the raising of living standards, the enlargement of opportunities for all, the promotion of enterprise among the disadvantaged classes, and the creation of a sense of partnership among all sections of the community. The socialist pattern is, one could say a more concretised expression of the Directive Principles of State Policy embodied in the Constitution.

Following the acceptance of the 'socialist pattern of society' as the objective of economic goal, the Government
of India formulated and announced its Industrial Policy Resolution of 1966. The Prime Minister placed the new Industrial Policy Resolution before Parliament on April 30, 1956. The new Industrial Policy Resolution stresses the role and responsibility of the State in promoting development. The public sector has to be enlarged, so as to include "all industries of basic and strategic importance or in the nature of public utility service". Other industries which are essential and require investment on a scale which in the present circumstances only the State could provide have also to be in the public sector. The State has thus to assume direct responsibility for the future development of industries over a wider area. The new resolution gives two schedules of industries in terms of the responsibility of the State in respect of them. The first schedule consists of 17 industries in respect of which future development will be the exclusive responsibility of the State. In the second schedule are listed industries which will be progressively state-owned. The State will generally take the initiative in establishing new industries in this category, but private enterprise will also be expected to supplement the effort of the State. For convenience of reference, the two schedules are given in Annexure V.

The development of industries in the rest of the field will be left to the initiative and enterprise of the private sector, although it is open to the State to enter any field, as necessary.
The categories given in the schedules are not intended to be rigid or water-tight. In the industries listed in Schedule A for instance, the expansion of existing privately owned units is not precluded and the State is free—subject, of course, to the proviso that it has the requisite control and power over the operations of the undertaking— to secure the cooperation of private enterprise if the national interest so requires. The prime consideration is promotion of rapid development in keeping with the objectives defined. The public sector has to grow rapidly but at the same time the private sector has to be given the facilities and opportunities to function effectively within the field allotted to it. In other words, there has necessarily to be a great deal of dovetailing as between the public and private sectors.

The Industrial Policy of 1948 provides ample evidence that the Government had not made up its mind about the growth pattern and did not decide where the line should be drawn, either immediately or ultimately, between the public sector and the private. It was an uneasy compromise between conflicting interests and opinions. The only hope that it expressed was for the enlargement of the public sector. On the other hand, the 1956 resolution is more clear cut and determined. It sets before it a definite objective to be achieved, i.e., 'the socialist pattern of society'. It clearly demarcated the
scope of the public sector. It reserved all industries of basic and strategic importance or in the nature of public utility services and other heavy capital based industries for the public sector. In other spheres also the role of the State was clearly defined. In this way, it can be said that 1966 resolution was a great improvement over that of 1948. It gave clear guide lines of state policy in the matter of industrial development of the country and the role of the public sector in this regard.

SECOND FIVE YEAR PLAN (1956-61):

The first plan ended in March, 1956 and the second plan started on 1st April, 1956. The formulation of the second plan had been started earlier and the 'socialist pattern of society' was the corner stone of the second plan. Under the Industrial Policy Resolution a prominent place had been assigned to the public sector and the Second Plan document also stressed the importance of using the public sector as an instrument for preventing concentration of economic power. Regarding the field of operation of the public sector, the second plan states, "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital goods industries which are major determinants of the rate of growth of the economy."
The responsibility for new developments in these fields must be undertaken in the main by the State and the existing units have also to fall in line with the emerging pattern. Keeping in view the expanding role to be played by the public sector in the development of industries, the second plan provided for a sum of ₹ 890 crores for the purpose, to be spent during the plan period. The actual amount spent during the second plan (1966-61) amounted to ₹ 872 crores. At the end of the second plan the total investment in the Central Government industrial and commercial undertakings stood at ₹ 953 crores and the number of public undertakings was 49. Thus another 28 undertakings (Annexure III), were started during the second plan period.

PROGRESS AND ACHIEVEMENTS OF THE PUBLIC SECTOR DURING THE FIRST TWO PLANS (1951-61):

The completion of the Second Five Year Plan in March, 1961, marked also the end of the first decade of India's planned development. Taking the decade as a whole the picture is one of overall progress. Basic facilities like irrigation, power and transport which are essential for agricultural and industrial development have been greatly expanded. Valuable mineral deposits have been opened up to feed industries, small and large. A number of projects have been completed in spite of delays caused chiefly by the foreign exchange crisis and have either
already come into production or will do so in the immediate years ahead.

A major step forward was taken with the establishment of three new steel plants in the public sector and the expansion of the two units in the private sector. The new projects reached the stage of production and the output of steel ingots increased from 1.4 million tons in 1950-51 to 3.5 million tons in 1960-61 and of pig iron from 3.5 lakh tons to 9 lakh tons. The availability of other essential industrial materials like aluminium, cement, heavy chemicals and dyestuffs, of fuels such as coal and petroleum, and of power also increased substantially since 1950-51.

Provision of adequate power is one of the basic requirements for the development of both large and small scale industries. A number of hydro-electric and thermal power projects were constructed during this period and the total public sector investment in power amounted to Rs. 705 crores. The four multi-purpose projects, Damodar Valley, Bhakra-Nangal, Tungabhadra and Hirakud, which were started before the First Plan, were incorporated in the integrated programme of river valley development. Among the river valley projects started during the last decade, mention may be made to Chambal, Rihand, Koyna and Nagarjunasagar. A large programme for thermal power generation was also
undertaken. The installed capacity of hydro-electric power increased from 0.66 million kw to 1.93 million kw and of thermal power from 1.74 million kw to 3.77 million kw during the last decade. The total installed capacity thus rose from 2.3 million kw in 1950 to 5.7 million kw in 1960-61.

**THIRD FIVE YEAR PLAN (1961-66):**

Thus the second plan ended on 31st March, 1961 when the Third Plan came into effect. During this plan period, as in the second, the development of basic industries such as steel, fuel and power, machine-building and chemical industries was considered fundamental to rapid economic growth. These industries largely determine the pace at which the economy can become self-reliant and self-generating. Therefore, the role of public sector became more dominant.

The major industrial projects in the public sector included in the Third Plan were in the fields of metallurgy, industrial machinery, machine tools, fertilisers, basic chemicals and intermediates, essential drugs and petroleum refining. Overall capacity targets proposed under the iron and steel industry comprised 10.2 million tons of steel ingots and 1.5 million tons of pig iron. These were to be achieved by expanding the public sector steel plants at Rourkela, Bhilai and Durgapur to a target capacity of 5.9 million tons and also by setting up a fourth steel plant at Bokaro.
The most significant development during the Third Plan period was, however, the rapid growth of machine-building and engineering industries. Foundry/forge capacity, which is crucial for machine-building purposes, was to be established on a large scale in the public sector during the Third Plan. The heavy machinery plant being set up near Ranchi, on its expansion to a capacity of 80,000 tons of output per year, will be able to supply a large part of the equipment required for setting up a million-ton steel-making capacity every year. Three heavy electrical equipment projects were designed to ensure, from domestic resources, a wide range of electrical equipment sufficient to enable power generation to be increased at an annual rate of two million kw per year from 1971 onwards. In the field of machine tools, provision was made for the expansion of the existing machine tool plants and the establishment of two new plants in the public sector.

The industrial and mineral programmes of the public sector involving an outlay of Rs. 1,882 crores were formulated for the Third Plan period with the hope that such an ambitious plan would lead to the rapid growth of public sector and achieve the objectives of a socialist pattern of society— the cherished goal of the nation. The Third Plan made the achievement of this objective more specific and categorical. The document stated, "As a decisive instrument which the State can employ in preventing concentration of economic power and growth of monopolistic
tendencies, the rapid expansion of the public sector serves a two-fold purpose. It helps to remove certain basic deficiencies in the economic structure and at the same time it reduces the scope for accumulation of wealth and large incomes in private hands........... As the relative share of the public sector increases, its role in economic growth will become even more strategic and the state will be in a still stronger position to determine the character and functioning of the economy as a whole." During the Third Plan period a sum of Rs. 1,462 crores was invested and 29 new undertakings (Annexure IV) were started.

At the end of the Third Plan (March 31, 1966) the total investments in the Central Government industrial and commercial concerns stood at Rs. 2,415 crores.


Notwithstanding, the strains on the economy and the delays and difficulties in the execution of projects in the public sector, the progress made in the Third Plan is substantial.

It cannot be gainsaid that the public undertakings in India have served as powerful instruments for achieving social and economic objectives. Serious gaps in the economy, particularly in the field of heavy industries, such as manufacture of steel, heavy machine tools, heavy electricals equipment, exploration and refining of oil, manufacture of
heavy chemicals and fertilisers and the indigenous production of defence equipment have been overcome through public enterprise. For instance, the total production of steel ingots which was entirely in the private sector was 1.5 million tonnes in 1950-51. It increased to 6.2 million tonnes in 1965-66, with the Hindustan Steel alone producing 3.44 million tonnes. The production of crude oil recorded a significant rise during the Third Plan period itself, rising from less than half a million tonnes in 1960-61 to 5 million tonnes in 1965-66. The production of machine tools increased from Rs. 30 lakhs worth of goods in 1950-51 to Rs. 23 crores in 1965-66. In addition to machine tools, the Hindustan Machine Tools now makes annually about 2½ lakh watches. In the field of heavy electricals, considerable advance has been made although the units of Bharat Heavy Electricals are yet to come into normal production. The sales of heavy electricals equipment made by Heavy Electricals, Bhopal, was Rs. 5.8 crores in 1964-65 and Rs. 7.43 crores in 1965-66. Dependence on imports for goods in these sectors has shown a marked decline in recent years. In 1960-61, 91.6 per cent of the total supply of machine tools had to be imported; this figure had come down to 44.6 per cent by 1964-65. As regards petroleum products (other than Kerosene), the percentage of imports of total supply went down from 91.5 to 1.6 during the same period. The refining capacity in India at present
is adequate to meet the country's full requirements of petroleum products except for kerosene and lubricants in which there exists a marginal deficit. At the end of 1967, the Indian Oil Corporation had a rated capacity of 5.5 million tonnes, against the overall capacity of both the public and private sector undertakings, of 17.5 million tonnes. There was a deficit of ten to fifteen per cent of the country's present consumption needs in kerosene and it had to be met by imports. The annual demand for kerosene at present was three million tonnes. Deficit in 1967-68 worked out to about four lakh tonnes. The occasional and sporadic shortage was due to the delay in the arrival of tankers. 8

The public sector will emerge as the major oil refiner in the year 1968, with a capacity of 52 per cent against 48 per cent operated by the private sector.

The public sector share in the refining capacity has increased spectacularly in the last few years and in December 1967 it exceeded the private sector capacity for the first time. In 1964, the public sector owned only 10 per cent of the capacity. Its share increased to 15.9 per cent in 1965, 28.9 per cent in 1966 and 44.2 per cent in 1967.

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8 Information given by Mr. H.N. Kashyap, Chairman, Indian Oil Corporation, reported in Economic Times dated 1.2.1968.
In the current year (1968), Koyali will be working at a capacity of 2.75 million tonnes, Barauni 2.25 million tonnes, Cochin 2.5 million tonnes and Guwahati 0.85 million tonnes. The considerable savings in terms of foreign exchange can easily be inferred from these data. Perhaps of even greater importance is the extent of progress achieved in the manufacture of a wide range of equipment needed for defence, such as military tanks, jet aircraft and electronic devices. In the field of drugs and pharmaceuticals the major developments comprise the expansion of Pimpri factory and the construction of the antibiotics plant at Rishikesh and synthetic drugs factory at Hyderabad. With the completion of this programme during 1966-67 the country will be more or less self-sufficient with regard to antibiotic and other essential drugs.

The public sector undertakings have also helped in reducing the regional imbalances through a planned dispersal of the new industries. Broadly speaking, Government have kept in view the claims of the relatively backward areas in locating new public sector enterprises in so far as this could be done without disregarding the essential economic and technical considerations. Thus, steel plants have been located in Madhya Pradesh, Orissa, West Bengal and Bihar; fertiliser factories in Bihar, Orissa, Assam, U.P., Kerala, Punjab and Maharashtra; precision instruments factories in

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9 Information given by an official spokesman of the I.O.C. reported in Economic Times dated 1.2.1968.
Rajasthan and Kerala; and the new machine tools plant in Rajasthan.

The growth of investment in the public sector helps to reduce the concentration of economic power in private hands. The share of the public sector as a whole in the reproducible tangible wealth of the country which was about 15 per cent in 1950-51, increased to 35 per cent by the end of the Third Plan period. The progressive increase in the assets of the public undertakings implies increasing control of the country's economy in the public interest.

Quite often grave doubts are expressed by a section of public opinion that growing public sector is going to be a menace to the growth and even the existence of the private sector. With all the advantages of state patronage and help it causes distortions in the economy making it impossible for the private sector to function smoothly. On the other hand, another section of public opinion considers public sector to be the panacea of all economic ills and suggests the socialisation of the whole economy. Both these viewpoints seem to be based on mutual distrust and misconception. India has accepted mixed economy where both the sectors—public and private—will co-exist. Each sector has been assigned its due place and each has to play its own role in the economic development of the country. Public sector has got to be extended to all those spheres of economy which go to accelerate the rate of
economic growth and maximise the national income and prevent the concentration of economic power in private hands.

The growth of public sector is not a menace to the proper growth of private sector. At the same time it will be wrong to assume that public sector will automatically bring about a socialist order leading to maximisation of production or maximisation of equality. Everything will depend upon the manner in which public undertakings are made to work. Public sector is favoured because it is hoped that it will bring about the achievement of desired objectives more efficiently and speedily than the private sector. It is expected that public enterprises would achieve efficiency, i.e., maximisation of output at minimum cost consistent with the quality of output, living standards for labour and retention of funds for self-employment and contribution to national welfare programmes.

It is, therefore, time that people realised that there is no magic in the words "Public Enterprise" and that mere extension of the public sector does not provide an answer to the problems of entrepreneurship, management and a fair deal for consumers. As the experience of public undertakings in the United Kingdom, U.S.A., France, Italy and the Scandinavian countries shows, the transition to a Welfare State and a more egalitarian society can come only
the hard way—through better management and more efficient production.

India is striving hard to achieve the objectives of socialism through democratic means. Since all economic activities cannot be brought under the banner of public sector, its activities are being extended to such sectors of economy where the commodity or service produced is such as to lead to monopolistic conditions or the possession of strategic economic power, or is a crucial determinant of growth or is not likely to be taken up by the private sector. Still enough scope is left to the private sector to grow and to prove its worth. In a mixed economy both the sectors have to work in close cooperation and have to co-exist.

To sum up, it can be said that there has been a spectacular growth of public sector during the three Plan periods (1951-56). In 1951 (beginning of the First Plan) the share of public enterprises in the industrial field was less than 3 per cent of total investment. By the end of the Third Plan in 1966, its share had grown to ten times i.e., nearly 30 per cent of the total investment. By the end of 1971, i.e., after twenty years of planning it is expected to be equal to the private sector. Large number of public enterprises, 68 in number, were set up during these 15 years, involving a total investment of Rs. 2,386 crores in the central sphere. Basic facilities like irrigation, power and transport which are essential for agricultural and industrial development have been greatly
expanded. Valuable mineral deposits have been exploited. Three new steel plants have been set up and the fourth at Bokaro is under construction. Other major projects in the field of heavy electrical equipment, heavy engineering and machine building, heavy chemicals, machine tools and of fuels such as coal, petroleum have been set up. By any standard, this is a significant growth indeed.

The public sector undertakings also helped in reducing the regional imbalances through a planned dispersal of new industries.

Thus public enterprise has been used as an effective instrument of rapid economic growth. It has built and is building up a sound infra-structure. It has also rightly been chosen for reducing the concentration of economic power and wealth and thus help ushering in 'socialist pattern of society'.