VOLUME I
The under-developed countries of the world are making various attempts for their economic development. India, too, has been engaged in a unique experiment of economic development. The Government of India is trying to establish a socialist pattern of society, without recourse to the familiar techniques of full-dressed communist planning such as wholesale nationalization, enforced collectivization, and so on. This is being done within the political framework of parliamentary democracy.

Before going into the details of the important role of the public sector in the Indian economy at present, and of the different aspects of its mode of operation, it is necessary to examine the historical evolution of the public sector, in this country, since independence. It is also quite essential to find out the place of the public sector, and of the economic discussions relating to it, in the pre-independence period as well.

The public enterprise was not unfamiliar even during the British rule in this country. There were certain important public undertakings like the Railways, Post and Telegraph and the All-India Radio. It was, however, obvious that they were not the result of any socio-economic policy.

The first recorded and official reference to the issue of state participation in economic activity could be
found in the Report of the Indian Famine Commission of 1880. Discussing the possibility of government action to diminish the severity of famines, or to place people in a better condition to endure them, the Commission recommended the development of industries, and occupational diversity. The field envisaged was: the manufacture and refining of sugar; tanning of hides, and manufacture of cotton, wool, silk, fibres, tobacco, paper, pottery, glass, soap, oils, and candles. The Commission, at the same time, was sceptical about the success of government participation in the field of large-scale commercial undertakings. It recommended state participation only for a limited purpose, and within a narrow sphere.

The Government, however, was not inclined to accept even these mild recommendations, and the laissez-faire policy continued up to 1904. In 1905, the Department of Commerce and Industry was established with a view to creating new industries in the public sector. Some of the provincial governments, particularly the U.P. and the Madras government, moved in this direction. But this led to some opposition from the local European vested interests which considered the move as a serious menace to private enterprise. The government, therefore, did not pursue the policy.

In the First World War the government realized the drawbacks of the economy and appointed the First Indian
Industrial Commission. It recommended: Government should play an active role in the industrial development of the country; it was necessary in the national interest to establish certain key industries (magnetos, incandescent lamps, ferro-tungsten, high-speed steel, graphite crucible, special forms of porcelain, chemical glass, certain heavy chemicals, rubber and vulcanite, etc.); where secret or highly specialized processes of manufacture were involved, the government should take steps to facilitate their introduction; and steps should be taken to make the administrative, scientific and technical staff adequate and capable enough to take up new jobs consequent to the adoption of the recommendations.

Here again the government did not take any decisive and bold step; it had other pre-occupations - mainly to put down the national upsurge. This policy continued up to the Great Depression of 1930. But even after the Depression, apart from some state activity, nothing positive in the sense of a public sector took place. The only exceptions were the Railways and Broadcasting.

The railways which were started in 1853 passed through various phases of development. They started under the management of private companies and later on they were run side by side with state-owned railways. After that the government took over the major lines and the process of nationalization was finally completed in 1964. Indian
public opinion demanded nationalization with a view to liquidating the private capital interests of an imperial country and to securing Indianization of higher posts. The government decided to nationalize the railways because of inefficiency and extravagance of private enterprise and the financial burden which the government had to shoulder, and in view of the recurring famines and the recommendations of the Acworth Committee (1920).

The Indian Broadcasting Company started as a private enterprise in 1927 and soon went into liquidation in 1930 due to heavy losses. The government assumed partial control but later on decided to close down the service due to heavy financial losses. The public demand for state-owned broadcasting system, however, persisted, and in 1932, the government finally decided to continue the service under its own management.

Thus these two important decisions regarding state-ownership were taken more on account of politico-administrative considerations than due to any socio-economic ideology.

In 1937 the Congress Party assumed office in the provinces. No important measure regarding economic policy and public sector was taken during the tenure of its office. The only significant event on the non-official level was the appointment of the National Planning Committee by the Congress President, Mr. Subhas Bose. Mr. Nehru was appointed
as the Chairman of the Committee. The Committee devoted its attention to the various aspects of the economy and its planned development. The proposals of this Committee will be discussed in greater details at a later stage.

After the Second World War, a Post-war Reconstruction Committee was set up in 1944; it recommended the inclusion of some industries in the public sector.

This was followed by the establishment of the Planning and Development Department; it was headed by Sir Ardeshir Dalal. In its Industrial Policy Statement of 1945, the Department stated that, besides the industries which were to be directly owned by the State and which would be managed by Corporations, some industries would be jointly financed and managed by the State and private enterprise. This was to ensure a balanced development of all parts of the country, an even distribution of available investible funds, a provision for fair wages, decent living conditions, and security for labour.

As regards State-ownership, the Statement recommended the continuation of Ordnance Factories, Railways, Posts and Telegraph and some public utilities already under the ownership of the State. In addition, the basic industries of national importance (aircraft, automobiles, tractor, chemicals and dyes, iron and steel, prime-movers, transport vehicles, electrical machinery, machine tools, electro-chemicals and non-ferrous industries) when adequate private
capital was not forthcoming and when regarded as essential in the national interest, were also to be included in the public sector. The statement added that the government should also take over those industries in which the tax element was much more important than profit. All other industries should be left to the private enterprise.

Thus the recommendations were really bold as compared with the previous policy statements of the government. In a way it was an advocacy of the 'mixed economy', though the phrase appears to be of recent origin.

A National Planning Board was appointed by the government to examine the problems as envisaged by the statement. The recommendations of the Board were as follows:

"The State-ownership of the industrial undertakings on a large scale would not bring about rapid industrial development of the country. But it should be the policy of the Government to bring under State-ownership and management some of the basic industries. So apart from Defence industries and other industries which might be started as public enterprises due to the unwillingness of private enterprise, the Government should consider the nationalisation of following industries - coal, iron and steel, mineral oils, motor-ğ, air-and river-transport."

These recommendations did not see the light of the day as the Interim Government which took over was pre-occupied with the question of transfer of power.

Thus it would be clear that the British Government did not
have any specific and clear policy regarding the public sector till 1940. But after the Second World War the policy statements were more clear and ambitious though no implementation of the schemes proposed became possible due to the transfer of power.

The Views of the Congress Party on Nationalization and the Public Sector

While discussing the historical evolution of the public sector in India and the various thought currents related to it, it is essential to pay some attention to the policy of the Congress Party on this matter. For, during the British Rule, it was the major political party and was the spearhead of the national movement; after independence it has been the ruling party in the country for the last fourteen years.

Ever since its establishment, the party, in its annual sessions, devoted some time to the economic maladies of the country. In some cases it suggested nationalization as a possible remedy. But there was no well-thought-out and coherent economic policy or idea regarding the role of the public sector in the national economy. The party was mainly pre-occupied with the national movement. The emphasis was on action, and no special attempts were made to develop the economic philosophy of the party. Some of the economic ideas were nebulous and vague. Unlike the British Labour Party, the Congress Party was not wedded
to the philosophy of nationalization of means of production and services.

In 1937, however, the Congress appointed the National Planning Committee under the Chairmanship of Mr. Nehru to study the various aspects of planned economic development. The Committee classified industries into defence, key and public utilities, and recommended that these should be included in the public sector. A very comprehensive list of industries falling in the above-named categories was prepared and reasons were given as to why they should be included in the public sector. The emphasis was more on the existing socio-economic needs of the country rather than on any creed or ideology. The following industries and public utilities were to be included in the public sector:

**Industries**

1. Power - hydro and thermal.


3. Metals - ferrous and important non-ferrous.

4. Industries for the making of machine tools, machinery, and machinery parts.

5. Heavy engineering industries for the building of ships, locomotives, wagons, automobiles, aircraft and the like.


7. Chemicals - heavy chemicals, fine chemicals including dyes, fertilizers and refractories.
Public utilities

1. Distribution of electricity, gas and other forms of energy.
2. Public transport and communication services.
3. Water supply and sanitation.

The later policies of the Congress merely repeat the contents of the National Planning Committee, till 1947. The two major changes afterwards are the Report on the Congress Economic Programme in January 1948, and the Avadi Congress Resolution in 1955. The details of these two policy statements will be considered at a later stage.

The Public Sector in the Discussions on Planned Development before Independence

Serious thought was given to the planned development of the country by the industrialists, political thinkers, and economists, particularly after the Second World War. Three important plans - the Bombay Plan, the Peoples’ Plan and the Gandhian Plan - drafted by three different Schools, came up for discussion. It is necessary to examine the important aspects relating to the public sector, as contained in these Plans:

The Bombay Plan

This plan was drafted in 1944 by some of the leading industrialists of Bombay. Obviously, the public sector was given a limited role in the developmental scheme. The public utilities, basic industries, using scarce natural
resources, and those industries which were getting substantial subsidy from the State were recommended for inclusion in the public sector.

The basic principles of the Bombay Plan were the limited control by the government over different sectors of economy and full scope for private enterprise. The State-ownership was to be confined to only such industries in which the State capital was invested. The State was to withdraw after some time to make room for private enterprise.

The Peoples' Plan

It was drafted by Shri M. N. Roy on behalf of the Post-War Reconstruction Committee of the Indian Federation of Labour. The Plan emphasized the need for nationalization for economic development of the country. The author of the Plan also made it clear that fair compensation should be given to the owners for taking over their assets.

The Gandhian Plan

It was drafted by Mr. S. N. Agarawal - a Gandhian economist. It proposed that the following basic industries and public utilities should be included in the public sector:

Basic Industries:
1. Defence industries.
2. Power - hydro, electrical and thermal.
3. Mining, metallurgy, forestry.
5. Heavy engineering, ships, locomotives, automobiles and aircrafts.

Public utilities:
1. Transport and communications.
2. Public health and sanitation.
3. Banking and insurance.

Post-Independence Developments

India attained freedom in 1947 and the Congress Party assumed office in the centre and in the provinces.

The national Government was responsible for the economic development of the country and a clear-cut economic policy was necessary. The Congress, as a ruling party, thought it incumbent to define its policy and so published the Congress Economic Programme in January 1948. It observed that new undertakings in the field of defence, key and public utility should be started only as public enterprises. The existing monopolistic undertakings should also be included in the public sector. This was considered essential for rapid industrialization, and welfare of the people.

This was followed by the Industrial Policy Statement in 1948, which defined the respective roles of public and private sectors. It adds that economic development postulated an increase in...
wealth; a mere redistribution of it would not make any essential difference to the people in general. It would only amount to the distribution of poverty. In this context the problem of State participation in the industrial field and the conditions in which the private enterprise should be allowed to operate must be judged. Whereas there can be no doubt that the State must play a progressively active role in the development of industries, under existing circumstances, the mechanism and resources of the State may not permit it to function in the industrial field as widely as may be desirable. So, for some time to come, the State can contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. So private enterprise continues to have a valuable role to play. In the light of these considerations it has been decided that

(a) the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport shall be the exclusive monopoly of the Central Government and that the Government shall have the power to take over any industry vital for national defence;

(b) State authorities (Central and State Governments
and other public bodies including municipalities) shall be exclusively responsible for the establishment of new undertakings in coal, iron and steel, aircraft manufacture, shipbuilding, 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 co-operation of private enterprise subject to such control and regulations as the Central Government may prescribe; and

(c) the rest of the industrial field will normally be open to private enterprise, individual and co-operative, though the State will also progressively participate in this field and will not hesitate to intervene whenever the progress of an industry in the private sector is unsatisfactory.

These relevant extracts from the Industrial Policy Statement make it clear that the Government of India had not made up its mind about the respective roles of the public sector and the private sector in the national economy. The Government was aware of its inability to plunge fully in the industrial activity; at the same time it had qualified every statement in anticipation of its future participation. Thus the policy seems to be an uneasy compromise between conflicting interests and opinions. It bears little evidence of socialist policies.

The Policy Statement had a mixed reception and some
of the Congress members felt that it had not gone much in the socialist direction. Professor K. T. Shah, who was the Secretary of the National Planning Committee, said that the scope of the public sector was narrower than the one envisaged in the recommendations of the National Planning Committee. Thus what the Congress was advocating all these years was not found in this Statement.

Dr. V. K. R. V. Rao, a prominent economist, had the following comments to make:

"If Government really wanted to increase industrial production and did not mind what it involved in social and mass terms, the logical thing to do was to have left a clear field for the profit motive to operate in the industrial arena unhampered by any restrictions. It is doubtful whether any Government in the context of Post-war social and economic consciousness in India would have been able to do this, but it was certainly not possible for the Congress Government ... to take up this attitude. The other logical alternative for Government was to have gone in for a bold scheme of state ownership and operation of industry in conjunction with industrial labour. This action was not easy to undertake both in view of the ideological balance of forces within the Congress Party and even more by the practical facts of the lack of experience and necessary technical personnel on the part of Government.

"The result was that the Government's industrial policy became one of fluctuating character, first turning to the left with promises of nationalization, profit-sharing, participation of workers in industry and industrial planning and then to the right by repeatedly limiting the scope of nationalization and then qualifying even what was left to the nationalised sector, by concession in taxation of higher incomes and by an increasingly tolerant and perhaps helpless attitude towards tax-evading profits.

"As happens very often, when one is trying to steer a middle course not because of helpless reaction to pressure on either side, Government's industrial policy satisfies none."

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1 Presidential Address to the Economic Conference, Jan. 1950.
The second important landmark after independence was the phase of planning with the establishment of the Planning Commission in 1950. Though the line of approach of the Planning Commission was quite different from that of the Industrial Policy Statement of 1948, its policies were limited by the Statement to a certain extent, and thus one finds that the Report of the Commission did not contain any pronounced socialistic policies. The Commission did not pay much attention to the problem of drawing a clear-cut line between the public sector and the private sector. It rather thought everything in terms of priorities and whether the allocation should be made to the public sector or private sector according to their respective capacity and efficiency. As in the First Plan, the priority was given to agriculture instead of industry, and the issue of State-participation in the industrial field did not occupy an important place in the Report of the Planning Commission:

"The high priority in the investment programme to the improvement of agriculture limits inevitably the investment which the State can itself undertake in industries, especially in large-scale industries. Progress, in this field, would, therefore, at this stage depend to a great extent on the effort in the private sector. The State in this initial period has to concentrate on the provision of basic services like power and transportation. The State has also a special responsibility for developing key industries (like iron and steel, heavy chemicals, manufacture of electrical equipment and the like) without which in the modern world continued development is impossible."  

1 First Five Year Plan, Chapter II, page 44.
As a necessary corollary of the above-mentioned principle, the Commission stated that the State should refrain from nationalizing existing private undertakings, apart from those to be taken over for security or political reasons (as enumerated in the Industrial Policy Statement). The Commission thought that most of the purposes of such a transfer of ownership could be served by judicious regulations through the Industries (Development and Regulation) Act, 1951.

So the whole approach of the Planning Commission was pragmatic and not dogmatic. At the same time it envisaged the role of the State in the developing economy as ever-increasing. It observes:

"One comes inevitably to the conclusion that a rapid expansion of economic and social responsibilities of the State will alone be capable of satisfying the legitimate aspirations of the people. This need not involve the complete nationalization of the means of production or elimination of private agencies in agriculture or business and industries. It does mean, however, a progressive widening of the public sector and a re-orientation of the private sector to the needs of a planned economy."

Thus the perspective put forth by the Government and particularly the Planning Commission was quite different from the policies of most of the underdeveloped countries of Asia. Though initial participation by the State in the economic activity was conceived on similar lines in most of these countries, the long-term view was to minimize such participation.

The First Plan gave important place to the public
sector particularly in the fields of irrigation, power and transport. Some of the most important public industrial enterprises are those producing fertilizers, steel, electrical and chemical products, aircraft, machine tools, locomotives and coaches, dry-core cables, radio and telephone equipment, D.D.T., Penicillin and Sulpha drugs, prefabricated houses, and salt.

Yet another important landmark was the announcement by the Congress Party of the 'establishment of a Socialistic Pattern of Society' as its goal, in its Avadi session in 1965. The resolution reads:

"Planning should take place with a view to the establishment of a socialistic pattern of society where the principal means of production are under social ownership or control.

This obviously influenced the policies of the Government and the Planning Commission. After the debate on economic policy the Parliament resolved that the objective of India's economic policy should be to establish a socialistic pattern of society. In order to achieve this objective the tempo of economic activity in general and industrial development in particular should be stepped up to the maximum possible extent.

The reasons for adopting this policy by the Congress and the Government are numerous. Apart from the economic compulsion and dimensions of economic activity, there was the growing influence of the rapid strides made by the socialist countries. There was gradual decline of the
Gandhian economic ideology in the Congress Party itself.

The Industrial Policy Resolution of 1956 has a pronounced socialistic bias and is completely different in its approach from that of the Industrial Policy Statement of 1948. It says:

"The state will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake state trading on an increasing scale... The adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in the present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over wide areas."

The Second Five-Year Plan, drafted in 1956 assigned even more important role to the public sector.

One critic has described it as a 'Soviet Plan'. But the extent of the public sector in the Second Plan was determined not only by the goal of socialistic pattern of society but also by the comparative lack of private capital and initiative for the ambitious industrial programme as envisaged in the Plan. Mr. John Strachey has observed that if an energetic and capable Indian entrepreneurial class, willing and able to carry through the indispensable process of basic industrialization, had appeared, it would have been allowed to have its chance.

1 Encounter, October 1956.
as Prof. Hanson has put it, "The part played by public enterprise in the First Five-Year Plan and the part projected for it in the Second, have been dictated far more by 'objective' than by ideological considerations."

The Third Five-Year Plan which was drafted in 1961, also gives a very important place to the public sector in the developing economy of the nation. It observes:

"The public sector is expected to provide specially for the further development of industries of basic and strategic importance or in the nature of public utility services, other industries being also taken up by Government to the extent necessary... In brief, in the scheme of development, while making full use of all available agencies, the public sector is expected to grow both absolutely and in comparison and at a faster rate than the private sector."

The Planning Commission also wanted the public sector to play an effective role in the implementation of the socio-economic philosophy advocated by the Government. This is evident from the following paragraph:

"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."

The Public Sector In the Context of the Stage of Economic Development

While discussing the role of public sector in India

1 "Public Enterprise and Economic Development", p.176.
2 Third Five Year Plan, p.7.
in the context of planning, it is also necessary to examine its role in the context of the stage of economic development.

India belongs to those under-developed countries of the world where the levels of real income and capital per head of population are low as compared to the advanced countries. In these under-developed countries there is no large-scale application of the fruits of scientific and technological advance to agriculture and industry. The term covers almost the whole of Asia, Africa, Latin America and parts of Eastern and Southern Europe.

Most of these under-developed countries are striving very hard to achieve the goal of economic development—to develop into an internally balanced, diversified and comparatively self-sustaining economy. Unless they make their own efforts, they have no other choice but to rely on economic aid from developed countries. This alternative is rather annoying particularly to those under-developed countries of Asia and Africa, who have recently shaken off the yoke of colonial rule, and so, as far as possible, they have been trying to lift themselves up with their own bootstraps. India belongs to this category and has been engaged in the Herculean task of economic development since the advent of freedom.

The basic objectives of these under-developed countries are: industrialization, diversification of economy, and modernization of agriculture. This effort presumes mobi-
lization of resources and their proper allocation. The role of the public sector in these countries is to achieve this in the best possible manner. It also fills up the gap where private capital is shy to come forth for various reasons. It also lays down the infrastructure (social overheads) of the economy.

Thus the public sector plays a very crucial role in the economic development of under-developed countries. The State has to take the initiative in most of the economic activities because it alone is capable to take a comprehensive and integrated view of the economy as a whole. It is not desirable to rely on the private enterprise, which has a short-term commercial outlook, limited capital capacity and technical know-how. Also it has little interest in laying down the social overheads which has to be done in advance without the possibility of any immediate returns.

Thus the under-developed countries have to make use of the public sector on a considerable scale. The magnitude of the public sector and the field earmarked for the private sector in the economy will depend on many factors like the socio-economic philosophy of the government of the country, the existing level of economic development, the institutional structure of society and so on. The three broad categories in this respect are:

In some cases the State confines itself only to the
laying-down of the infra-structure. After a vigorous participation in the economic activity in the early stage, the State gradually withdraws as the private enterprise emerges to fill the vacuum.

In countries where the full-dressed communism is the objective of economic development, the role of the private sector is considered to be anti-social and is given a limited and transitory role. The public sector goes on increasing and ultimately becomes all-pervasive.

India has been following a middle course, where there is a mixed economy with sufficiently important role envisaged for the public sector.

The size of the public sector is determined by the pace with which the government wants to push forward its economic programme. The character of economic development also influences the extent to which the public sector has to be used. Thus, if the emphasis is upon heavy industries, the public sector is bound to play a crucial role.

In case of India the three factors, namely, the socio-economic philosophy of the Government, the rapid pace of development through the public sector, and the character of economic development have combined together to give a very important and strategic role to the public sector in the national economy.

The Scope of Public Sector

The motivation and the important role of the public
sector in this country have been discussed in the preceding pages. The public sector made a small beginning soon after independence, and expanded by leaps and bounds after 1950, with the country's planned economic development. At present it occupies an important place in the national economy, and has played a significant role in basic and heavy industries; multi-purpose projects; irrigation and power; transport, communications and other public utilities; defence industries; banking, and life insurance; consumer goods industries; small-scale industries and handicrafts; mining and oil exploration; industrial finance; rural credit; trade; constructions; medicines and pharmaceuticals, etc. A detailed list can be seen in Appendix 'A'.

Some of the enterprises have been taken over from private entrepreneurs, but most of them have been initiated in the public sector. The prominent examples of nationalization have been the railways, the road transport, the air transport, and the life insurance.

The State and Road Transport

The State participation in the field of transport has been conspicuous. The railways, the major portion of passenger road transport services, and the internal and overseas air transport have been functioning as State enterprises. The nationalization of railways was practically completed by the end of 1947. The air transport was
nationalized in 1953. Between 1948 and 1950, most of the states took over road transport services from private operators. The main reasons for the State Government to step in were: very unsatisfactory record of operation under private ownership, and public demand for improving the operations. Today the nationalized road transport forms an important part of the public sector in the country.

Before independence, attempts were made by two princely States to run road transport services. They were the road transport services of Travancore-Cochin, and the Road Transport Department of the Hyderabad Railways owned by the Nizam State. No attempt was made by any Provincial Government to run the road transport services as a public undertaking. Attempts were made to regulate them, but without success.

The National Planning Committee appointed by the Congress Party in 1937, had recommended the inclusion of public transport and communication services in the public sector. Soon after independence, the Congress Ministries in the provinces nationalized passenger road transport services. The Central Government came forward with a special legislation in 1950, enabling the states to set up statutory public corporations for running the nationalized road transport. The process of economic planning made it necessary to control the road transport services in an effective manner, as a good system of road transport is
Bombay was the first State, in this country, to move in this direction, and to set up a statutory public corporation for running the nationalized road transport. An attempt has been made in the following chapters to study in detail the conditions of the road transport industry in the Province before nationalization, the process of nationalization, and the aspects of the working of the public corporation set up to run the Bombay State Transport.