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### PUBLIC ENTERPRISE IN ECONOMIC DEVELOPMENT

Its scope, organisation forms  
: in general

and

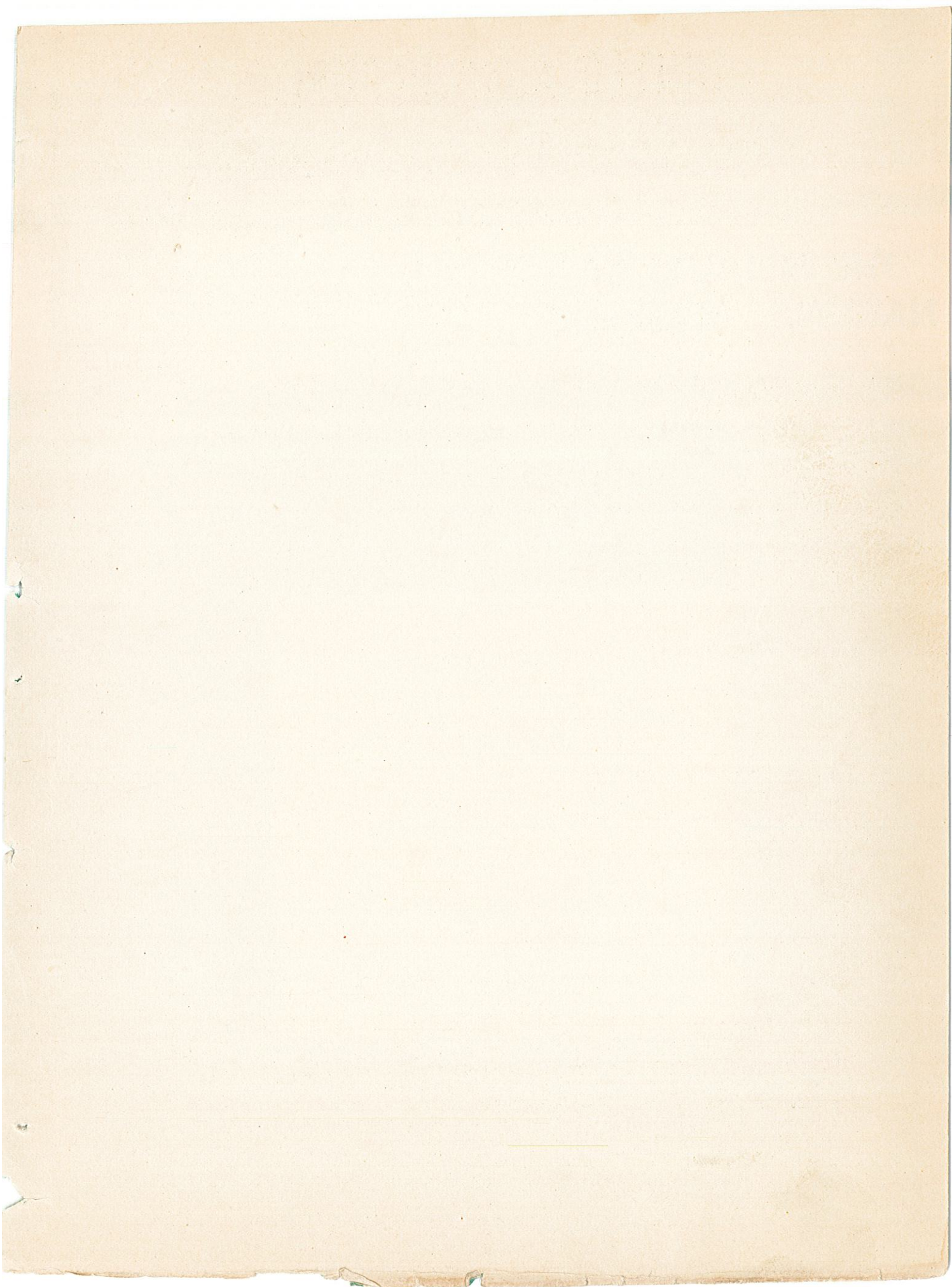
The Indian Experience

by

JAIRAJ SOLOMON

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## The Role of Public Enterprise in a developing Economy

One of the greatest problems confronting the under-developed countries of to-day is to determine the precise scope of public enterprise in their various economic developmental plans. This problem in its turn depends on the problem of resource mobilisation, i.e. the problem of capital formation seen in a wider context. All developmental activities require resources in the form of man-power, material and supplies, and public enterprise is not only the most effective instrument of resource-raising but also of resource-allocation.

It has, therefore, become almost an economic axiom that if an underdeveloped country wants to lay down solid foundations of economic growth upon which the structure of a dynamic and diversified economy is to grow, if it wishes to proceed with its economic development at a rapid pace in order to 'get the things going' and if it desires to have a sizeable and rapid increase in its national wealth and per capita income, it has no other alternative but to assign a very important role to public enterprise in its over-all developmental perspective. To what extent the state should contribute to economic development, and what fields of economic activity should be left to private enterprise will depend, partly on ideology, but to a much greater extent on social and economic circumstances prevailing in a country.



To quote Prof. A. H. Hanson, "Public enterprise, in a more restricted and more familiar sense", means "State ownership and operation of industrial agricultural, financial and commercial undertakings... According to the development pattern chosen, there can be much or little of this kind of state intervention in the economy. But, however much or little there is, it cannot achieve its purpose unless there is also there is also clarity on the role that it is to play in the total developmental process. That role is determined partly by necessity, and partly by free choice. The extent of the public sector, its mode of organisation, its relationship with the private sector, the permanence or transience of its contribution to the economy -- these are matters which are dictated upto a point, by 'objective circumstances' beyond that point, they depend on what way of life, what kind of society, the Government has chosen to promote.

2. The scope of public enterprise in the developed and the under developed countries:

Thus, it would appear that the scope of public enterprise, though it may differ from country to country, will, by and large, depend on one or more of the following circumstances

- (i) The stage of economic development achieved by a country,
- (ii) the type of the development pattern adopted by a country based on its political ideology,



(iv) the internal political, economic or social conditions  
prevailing in a country.

((i)) The Stage of Economic Growth :

The stage of economic development of a country can be judged in terms of its national income or per capital income. There is another way of its assessment by finding out how much a particular country has contributed to the world wealth ? It is on the latter basis that some economists have divided the countries of the world into three categories, viz., high income countries, Middle income countries and the Low income countries. A special feature of the economy of the High income countries is that a very great part of their national income comes from the industrial sector, while in the case of lower income countries the largest contribution to their national income is made by agriculture. It, therefore, follows that all High income countries are highly industrialised, and they have achieved an advanced stage of development. The Low income countries, on the other hand, are mainly dependent on agriculture, and may be called the under-developed countries of the world.

All highly industrialised countries have reached an advanced stage of scientific and technological development. They have already created a considerable pool of business talent and technical



expertise. The size and nature of the public sector in such countries have, therefore, become very important, and most of the public enterprises have been established in the industrial and commercial fields. In formulating their developmental plans the under-developed countries have to think in a different manner. In the initial stages of development they have to pay a very great attention to the importance of agricultural development. The first task for their Governments will be to carry out widespread and far reaching Land Reforms and to concentrate their attention mainly on the development of their agricultural agencies for the improvement of their productive efforts. Gradually, such states may undertake to create specialised credit and marketing institutions, regional development Boards, Irrigation projects, Warehousing Corporations or Equipment supplying agencies in the public sector of their agricultural economy. At a later stage of economic development such countries may start thinking in terms of an internally balanced, diversified and comparatively self-sustaining economy, and may enter into the field of manufacturing industries by establishing or nationalising the basic or heavy industries.

There is yet another basic difference between the developed and the under-developed countries. The developed countries had mostly achieved their independence several years ago, which has



enabled them to develop a very advanced and adapted system of political ideology and administration. The scope of public enterprise in their case is, therefore, largely, determined by 'free choice' and not by 'necessity'. It is their political ideology which mostly dictates the extent of State intervention in their economy. In the case of under-developed countries, which are either colonial or 'trustee countries or countries newly emerged from dependence, their political ideology, or administrative system is yet to be built or strengthened. The role of public enterprise in their developing economy will, therefore, be largely determined by their economic and social needs, and not by 'free choice'.

((ii)) The type of developmental pattern based on Political Ideology:

From the point of view of public enterprise the economists have distinguished between three alternative developmental patterns of the broadest kind viz : -

- a) The 'Infrastructure' pattern.
- b) the 'communist' pattern, and
- c) the 'Middle Way' or the Indian pattern.



(a) The 'Infrastructure' pattern

The idea of providing an 'infrastructure' by the State had its origin in France, but this pattern has been actually adopted by countries like Japan, Philippines and Chile. Under this developmental pattern the State takes the initiative for starting industries in the public sector, and then gradually hands them over to the private sector. The famous 'spinning Campaign' of 1877 of Japan can be cited as an outstanding example.

(b) The 'Communist' pattern

According to the Russian Socialistic ideology the entire private sector is considered to be anti-social. This, therefore, envisages a progressive and usually rapid extension of the state at the expense of the private sector.

The Chinese 'Communist' perspective is slightly different. They believe in squeezing out the private sector, not by outright nationalisation, but by employing tax-pressures, credit rationing, capital-levies, joint state-private enterprises, state competition, Union-demands and the like.

(c) The 'Indian' pattern

India's developmental pattern is based on the idea of 'mixed economy' or 'dualist economy' and some Western economists have



described it as ' attempting a middle way.

Under our developmental pattern the public and the private enterprise are to co-exist side by side. The basic and heavy industries are to be in the hands of the State, but other types of industries remain open to private enterprise. A mixed group of State-owned companies exist side by side with private companies.

Encroachment of the public on the private sector is to be guided by the Planning authorities in the light of the national economic interest. The main object of our developmental pattern is that " there should be no concentration of economic power in private hands, vested interests should not grow up in strategic or social matters, development of monopolies should be avoided, and there should be a dispersal of economic power leading to a socialistic pattern of society."

The distinction between the ' Infrastructure' pattern and the ' Indian pattern' is very important from the point of view of the circumstances which determine the scope of public enterprise in the two perspectives. In both the cases the means may be similar, but the aims are different. In the first case the public enterprise is a sort of ' regrettable necessity,' while, in our case, it has become a valuable and a permanent part of our economy.

((iii)) International Influences.

The world today is divided



between the two ideological blocks, although there are some uncommitted countries in India, Burma and the United Arab Republic. There is, therefore, a constant ideological conflict or Cold War going on between the Russian and the American blocks. From the point of view of public enterprise this conflict is in reality between 'complete state control' and 'free enterprise'

All under-developed countries engaged in the struggle for development must seek outside help from the more developed countries. Thus, a new concept of developed-under-developed relationship or 'Foreign Aid' has started taking shape in the world economy. The kind, extent and the distribution of 'Foreign Aid' has an immense effect on the economies of both the developed and the under-developed countries. In the latter case it goes a long way in determining the scope of public enterprise.

This foreign assistance from the developed to the under-developed countries is generally being given in the form of money, material or technical skill. It may be in the form of loans or grants given either through Inter-Governmental programmes or through International Agencies. It may be given with or without conditions.

'Foreign Aid' given with conditions may change the entire developmental pattern of the country, which accepts it. The giver while giving his money or material, very often gives his 'mind'



to the taker, and this has far-reaching implications in the international field. Even International agencies, like the International Bank, under the influence of American ideology, try to impose their 'mind' on the under-developed countries in recommending free enterprise' as the only panacea for all their developmental pains and economic discases.

The International Bank has very often expressed its views by saying that " a vigorous growth of private enterprise is the ultimate rationale of economic development" for the under-developed countries. The views were expressed by the various Missions of the Bank to Iraq, Nigeria and Malaya. Mr. Eugence Black, the Chairman of the Bank has also said that " if the real benefits of industrialisation are to be obtained". Governments should undertake industrial ventures, " if at all, only as a last alternative and only after full examination of other alternatives that exist". The U.S. Export Import Bank, and the International Bank of

Reconstruction and Development also impose their 'will' on the under-developed countries by granting loans for some special types of projects, which may be of much importance to the under-developed countries. The 'Russian Aid' to the ' neutralist ' countries may not havee any visible 'strings' attached to it, but it is mostly given for public enterprises inducing the under-developed countries



to change their developmental patterns from 'free enterprise' to more and more of 'State Control.

Such international influences or the competition that exists between the two power blocs have virtually changed the developmental patterns of several under-developed countries. Turkey and Iran have already changed their developmental plans by shifting emphasis from state enterprise to private enterprise on account of the prospect of free flow of dollars from America.

Thus, we find that 'foreign influences' go a very long way in influencing the scope of public enterprise specially in the case of under-developed countries.

((iv) The Internal Political, Economic and Social conditions:

The internal political economic and social conditions prevailing in a country also play a very important role in determining the scope of public enterprises. They not only differ from country to country, but act and react on each other within a single country in such a manner that a very complex structure is created, and it is very difficult to consider them in isolation as a determining factor for the scope of public enterprise. In fact, the economic and social statistics constitute the 'raw materials' for the 'Political Planners' of a country for manufacturing their developmental plans. The 'finished product' may have less or more



of public and private enterprise according to the availability of resources in the form of man-power, foreign and domestic capital and material supplies.

### The Scope of Public Enterprise in India

In India the scope of public enterprise has been steadily increasing during the first and the second five years plans. Over the last ten years, i.e. 1951 to 1961 the national income will have increased by about 42 per cent, per capita income by about 20 per cent, and per capita consumption by about 16 per cent. But, actual statistics are not yet available to show the exact contribution of Public enterprise to our national income or per capita income. It is, therefore, not possible to make any quantitative estimate of the contribution of the public sector in our country's economic progress.

The public sector in India now includes a very extensive range of public enterprises, such as industrial undertakings, irrigation and power projects railways, road transport, air transport, air transport, shipping, etc., and present a very large number of forms such as departmental organisations, Corporations, Boards and Commissions, and State owned companies of pure and mixed varieties performing multifarious functions in the field of Industry, Agriculture, Finance and Commerce. They have also developed



a great diversity in their respective administrative set-ups.

The total investments in all these forms of organisation have also been constantly increasing. According to the estimates made by the Estimates Committee about the Government's investments in industrial undertakings, including some purely service organisations, the aggregate amount is about Rs. 429 crores by the end of 1959-60. The capital investment in the Indian Railways has risen from about Rs. 970 crores in 1950-51 to about Rs. 1560 crores in 1960-61, and it is expected to rise to about Rs. 2,300 crores by the end of the third plan. The Electricity undertakings in the public sector are also expected to have a capital of about 1,700 crores by the end of the third plan. If the investments by way of share-capital as well as of loans are taken into account, the investment in statutory corporations and Government companies alone will exceed Rs. 765 crores.

The above facts show that the public enterprise in India has come to stay not as a transitory feature, but it has become a valuable and a permanent part of our economy. It has been assigned a definite role to play in our total developmental process.

The scope of public enterprise in the Industrial Sector of our economy has been clearly laid down in the Industrial Policy



the direction to economic activity given by state action, the impact of fiscal devices used for mobilising the resources needed for the plan, the expansion of social services, and the institutional changes in the sphere of land ownership and Management, the functioning of joint stock companies and the managing agency system and the growth of co-operative sector under State sponsorship all these determined the points at which new incomes will be generated and the manner of their distribution." The process may be slow, but there is no other way of development for our country with the democratic way of life than the 'middle way'.

Thus, we have seen that the scope of public enterprise may differ from country to country as it depends as it depends on the stage of economic development achieved by a country, the type of the developmental pattern adopted by a country based on its political ideology, the foreign influences and the internal political economic or social conditions prevailing in a country. In India too, all these factors have played their part in determining the scope of public enterprise in our total developmental pattern. The scope of public enterprise is likely to expand not only in the Industrial sector, but also in the other sectors of our economy as it becomes all the more dynamic, diversified and self-sustaining. The private sector will, however, continue to assist and supplement the public sector, not so much in its own interest, but in the general interest of our National



As the scope of public enterprise has an intimate relation with its various organisational forms in which it manifests itself, a study of the various forms of public enterprises will, therefore, be necessary to have a clear idea of the scope of public enterprises.

#### 4. Forms of Public Enterprises

The developed countries provide examples of a very large range of organised types of public enterprises. The chief problem, which, therefore, confronts an under-developed country is to choose between several alternative types of public enterprises, of which the chief are :-

- (1) The departmental enterprise,
- (2) the public corporation,
- (3) the limited company, and
- (4) the Managing agency or the operating contract.

1. The departmental management: It is the traditional type of public enterprise. It is being used for railways, Postoffices, telegraph and telephone services, .....



harbours, commercial and industrial monopolies of a revenue raising character, and even for manufacturing industries. It is generally organised, financed and controlled in much the same way as any other Central Government department.

Its principal characteristics are as follows: -

- (i) It is financed by annual appropriations from the Treasury and all or a major portion of its revenues are paid in the Treasury;
- (ii) It is subject to budget, accounting and audit controls applicable to Government departments;
- (iii) The permanent staff of the enterprise are civil servants.  
All rules applicable to civil servants apply to them;
- (iv) It is just like any other major sub-division of a central department of the Government;
- (v) It, being a Government department, cannot be sued without the consent of the Government.

This type of public enterprise has the maximum degree of Government control, but the minimum of flexibility. Its obvious advantages are that-

- (i) there is no lack of ambiguity about the degree of public accountability, and



- (ii) It has a clear relationship with the other parts of the Government structure.

But, its disadvantage far outweigh its merits. The main disadvantages are as follows :-

- (i) It tends to raise the power of the Government to the maximum, and to reduce initiative and flexibility to the minimum.
- (ii) The administrative and financial structure of this form is incompatible with the operating and financial requirements of most public enterprises.

In such forms the annual appropriations are obtained from the legislature. The enterprise is not allowed to utilise incidental revenues or to retain unexpended balances. Such budgetary controls make long range experiments impossible, and prevent expansion of service. Individual transactions are to be approved by the Ministry of Finance, and very rigid rules are to be followed for the purchase of supplies or for contract. This hampers individual judgment and initiative.

- (iii) This form tends to make it more difficult to operate an enterprise on a self-sustaining basis. It is likely to be subject to continuing pressures to provide goods and services at less than cost.



Some countries have devised new techniques to do away with some of these obvious weaknesses of this form by introducing advance accounts, commercial audit, revolving funds and exemptions from irksome laws and regulations; but these have not been conducive to a high degree of operating and financial flexibility.

In our country inter-ministerial control Boards have been set up for the execution of the Bhakra-Nangal, Hirakud and similar other projects to allow for proper co-ordination and quick decisions. The Indian Railways have been delegated considerable powers. They have their own financial, administrative and appointment procedures, and their own accounting and auditing departments. The departmental enterprises in Uttar Pradesh have attained a high level of efficiency, and this form of management has been a success in nationalised transport, as the Transport Commissioner has been delegated adequate powers. The Roadways Board simply carries out the Government policy.

But, the case against the wide-spread use of this form in under-developed countries is fairly strong. The P.W.D. in Jamaica had been an entire failure, and Ceylon's experience of operating manufacturing industries in this form has been even more dismal. Though, the Indian Railway department has had great



achievements to its credit, something has been found to be very wrong with the Indian Railways. Only a short while ago the World Bank has expressed grave concern at the crisis in which the country finds itself to-day as a consequence of the Railways' failure to measure upto the needs of a rapidly expanding Economy. What other weaknesses of organisation, operation, planning or co-ordination the probe by the Bank Team experts will reveal, we cannot surmise, but it can make us think whether the defect lies in the form or some where else.

## (2) The Public Corporation,

Over the past twenty-five years the public corporation has become the most common form of organisation for public enterprises. Herbert Morrison has defined it as "a combination of public ownership, public accountability and business management, for public ends."

Its main characteristics are :-

- (i) It is wholly owned by the State.
- (ii) It is generally created by a special Law defining its powers, duties and immunities, and prescribing the form of management.
- (iii) As a body corporate it can sue and be sued, enter into contracts, and acquire property in its own name.



- (iv) It is independently financed. It obtains its funds by borrowing either from the Treasury or the public and from its own revenues.
- (v) It is mostly exempted from regulatory and prohibitory statutes applicable to expenditure of public funds.
- (vi) Ordinarily it is not subjected to budget accounting and audit laws applicable to Government departments.
- (vii) In the majority of cases employees of Public Corporations are not civil servants.

The main advantages of this form are:

- (i) Freedom from parliamentary estimating, appropriating and accounting procedures.
- (ii) Freedom from restrictive statutes with respect to disbursement, contracts and purchases.
- (iii) Great expansion facilities and provision for unanticipated growth in business by means of its own revenues or borrowed funds.
- (iv) Freedom from civil service regulations.

These advantages are relative and not absolute, and much depends on how the constitutional statutes of a particular corporation are framed. Too many restrictions can be incorporated in the legal provisions limiting the autonomy enjoyed by this form of public enterprise ultimately reducing it to a mere shadow, or very near the departmental form.



A Board of Directors is considered by many to be an essential attribute of a public corporation. This may be either a 'Policy Board' or a 'Functional Board' but state corporations have existed and operated effectively without a Board of Directors. The power to appoint and dismiss the Board of Directors generally vests in the appropriate Minister, who exercises some control in matters of policy and general supervision, and is finally responsible to the Parliament.

### 3. The State Company

State companies are set-up under the ordinary Company Law of the country concerned under executive decisions of the Government. In this form the Government has a controlling interest through its ownership of all or of some of the shares. It is, therefore, of two types viz.:

- (i) Wholly owned by the State or
- (ii) Partly owned by the State, and partly by private owners of capital.

The main advantage of this form is that it is the best device for attracting private capital. This form of public enterprise can be very useful in the following circumstances -



- (1) When the Government may have to take over an existing private enterprise in case of an emergency.

This has happened in many European countries between the two wars. Shares of many private enterprises were bought by the Government to save them from bankruptcy, and the same were resold when the companies were re-established.

- (2) When the state wants to launch a new enterprise in conjunction with a private firm, which is ready to provide capital as well as technical skill, or perhaps is not prepared to supply the one without the other.

The Hindustan Steel Ltd., established in cooperation with the German firm Krupps and Demag, is an outstanding example of this form.

- (3) When the Government wants to start an enterprise with a view eventually to sell it wholly or partly to private owners.

The main disadvantage of the entirely state-owned company is said to be that it evades the constitutional responsibility, which a state controlled enterprise has to the Government and to Parliament.

- (4) The Operating Contract

This is comparatively a new device for



administration of public enterprises. Under this form the state enters into a contract with an established private company for management of a public enterprise and agrees to re-imburse the contractor for all costs which he incurs. The contractor is compensated for his services by a ' fixed fee ' set by negotiations.

The Principal advantages of this form are:

(i) It makes available to the Government the technical knowledge or the managerial skill of a foreign or private firm; and

(ii) it provides the greatest amount of flexibility.

But the disadvantages of this form are also obvious viz:-

(i) the Government cannot ensure that the contractor paid on costs plus basis will achieve due efficiency and economy, and

(ii) whether the policies laid down by the Government will be carried out by the contractor.

The conflicts between the Government and the contractor may result in the termination of the contract or in mutual recriminations as were found in the early histories of the Hindustan Machine Tools Ltd., and the Hindustan Shipyard Ltd.

##### 5. The 'Controversy' regarding Forms:

There is a good deal of controversy both in the European



countries as well as in India regarding the forms of public enterprises mentioned above. The controversy mainly revolves around the following two points:

- (1) Which form has the 'best' balance between 'flexibility' and 'controls' to assure the right amount of 'autonomy' and 'public accountability'.
- (2) Which form is more suitable for which type of public enterprise or which is the 'best' form;

So far as the departmental organisation is concerned, the consensus of opinion of the authorities on Public Administration appears to be that it is not a very suitable device for all types of public enterprises, as it tends to increase the Government 'controls' to the maximum and to reduce the degree of 'flexibility' to the minimum. They, however, suggest that this form can be suitably used in defence enterprises, public utility enterprises or for public enterprises designed for economic control.

The Public Corporation form has been greatly favoured in the West on the ground that it provides just the right combination of 'Commercial' freedom and 'Government Control'; or to put it in



President Roosevelt's classic phrase " clothed with the power of Government but possessed of the initiative and ' flexibility' of private enterprise, " The consultants in the U.N. Seminar held at Rangoon in 1954 were of the unanimous opinion that where an enterprise is wholly Government-owned it should be set up in the form of a public corporation, or in some cases administered as a Government department. The same views have been expressed by the Commission on Government Undertakings in Ceylon. The Indian Estimates Committee also endorses this opinion when it says " that all wholly state owned Public Undertakings should generally be in the form of statutory corporations, or where necessitated by special reasons, in the form of departmental undertakings, and the company form should be an exception to be resorted to only for organisations of a specified nature such as when the Government may have to take over an existing enterprise in an emergency, where the state wishes to launch an enterprise in association with private capital, or where Government wishes to start an enterprise with a view eventually to transfer it to private management.

(6) The 'best' form of Public Enterprise?

In our opinion, this ' controversy' about the various forms is



mostly academic and somewhat futile. Forms are only means to an end and not the end itself. These are not something to 'acquired' or 'imported' from the West or something to be 'initiated'. An upto-date administrative technique is closely related to a particular economic, social and political structure Actual study has now abundantly shown that practically every known type of Public Enterprise has been found working well in some circumstances, and badly in others. 'Form' of the public enterprise is, therefore, immaterial and the real test for finding out the 'best form' should be not of the 'legal structure' we give to a particular 'form', but the test of 'efficiency' and 'economy' with which it is allowed to operate. Probably one can justifiably paraphrase Shakespeare - "there is nothing good or bad in 'forms', except 'working' makes it so".

The edea of suitability or unsuitability of the various forms of public enterprises for operating particular types of undertakings with 'efficiency' and 'economy' has differed from country to country from enterprise to enterprise and it has not been found to be a continuous pattern even in the same country. But the experience so far gained in this respect has enabled the authorities in Public



Administration to lay down certain broad principles for the efficient and economical working of the various forms, which may be enumerated as follows:-

1. The frame-work of a public corporation device is generally more appropriate than that of a Government department for the conduct of certain economic activities. Where the pattern of enterprises is a 'structured' one and not a haphazard scattering of so called independent agencies, and where the aim is of 'diversification' or 'extension' of certain economic activities with the right amount of economic control, the use of the corporate device may be recommended.

" Public Corporations should not be established except where the need for them has been proved. Ideally, care should be taken to define as exactly as possible the scope of their functions, and to specify their relationship with the other agencies of the Government, and particularly with the ministries in whose policy areas they are located, and with the organs of economic planning.

" The Government should periodically undertake a comprehensive



revision of the pattern of Public Corporation in order to ensure that it is rationally adapted to the changing needs of economic development. "

According to Mr. Appleby, " True autonomy is out of the question, and not seriously proposed by any informed person. In democratic Government, Government can always, and should always be able to intervene in any matter really important to the Government.

2. The state company, in its ' mixed form ' is very suitable for easy mobilisation of private capital, and this device can be safely resorted to in the specific cases already cited above, but care should be taken to introduce the right degree of ' controls ' in the Company Law itself or in the Articles of Association so that it may not degenerate into a 'small kingdom ' assigned to the overlordship of the officer, who happens to be the Managing Director or Chairman.

3. The ' operating contract ' is a good device for taking advantage of the technical knowledge of a foreign firm, but some ' incentive ' should be given to the foreign firm, in addition to the ' fixed fee ' on a ' cost plus basis, to achieve the maximum results in the minimum time.



7. Some special problems of the Indian forms

Although there had been a number of public enterprises in India long before independence, they were, however, mostly of the departmental type confining their activities to 'public utility services', irrigation or to defence industries. Since the achievement of independence, and specially after the commencement of the 1st five year plan, there has been a tremendous increase not only in their number, but also in a very large variety of 'forms' performing a great variety of 'functions'. This has resulted in the creation of a whole lot of problems concerning the forms of organisation, their administrative set up, finance, Government Control, Accounting, Audit and Parliamentary Control.

In this chapter, however, we will confine ourselves to two of the most important problems of the forms of organisation, and the administrative set up only, which may be broadly stated as follows:

1. The Multiplicity of organisations, and
2. the diversity in administration.

(1) Multiplicity of forms

In our country we have departmental undertakings of the



of the Central and State Governments. There is a large variety of various types of Corporations, Commissions, Committees and Boards formed under special Acts. There are Control Boards set up by special resolutions of the Government, and there is a very large variety of State companies.

Out of about 31 most important departmental undertakings of the Central Government, 19 are ordnance factories, 5 are the Government Mint and security presses, 2 are mechanised farms, and there are certain other undertakings such as the Chitranjan Locomotive Works, the Integral Coach Factory, the Central Tractor Organisation, the Indian Railway and the Indian Posts and Telegraph Department.

There are about 25 important corporations out of which 13 are financial corporations including the Reserve Bank of India and the State Bank. There are also 2 insurance Corporations, 2 Airlines Corporations, 2 port trusts, and several other types of corporations such as the Warehousing Corporation and the Damodar Valley Corporation.

There are Commissions of divergent nature such as the Oil and Natural Gas Commission or the Khadi and Village Industries Commission.



There are Boards for the development of small scale industries, Handlooms and Handicraft, Boards for the various cash crops such as coconut, jute, tobacco and sugar cane or Boards for coffee, rubber, silk and tea or Control Boards for projects like Bhakra Nangal and Hirakud.

The State companies numbering about 125 in all present an immense variety of forms and functions.

An important aspect of this multiplicity of organisations is that the functions of many of the newly set up undertakings appear to be similar and overlapping to a certain extent. The Estimates Committee has cited some very pertinent examples, viz:

- (1) Rehabilitation Finance Administration, Rehabilitation Industries Corporation Ltd., National Industrial Development Corporation Ltd., and Industrial Finance Corporation.
- (2) The Eastern Shipping Corporation Ltd., and the Western Shipping Corporation Ltd.
- (3) Sindre Feritlisers and Chemicals Ltd., and the Hindustan Chemicals and Fertilisers Ltd.
- (4) Oil and Natural Gas Commission, the Indian Oil Co. Ltd.,



and Indian Refineries Ltd.

A problem, therefore, arises whether there is any possibility of reducing the multiplicity of Public Enterprises of like nature such as those noted above ? A correct solution of the problem may be arrived at only after a detailed examination of all the forms, but an issue can be raised whether for each new task a new organisation should be created or should it be entrusted to an existing organisation which has already gained experience in the line?

The consensus of opinion on this issue seems to be that before a new undertaking is set up the possibility of entrusting it to an existing undertaking in the same line should be considered, and the feasibility of reducing the existing number of public enterprises by amalgamating some of them may also be examined. The merging of the three steel units into one Hindustan Steel Ltd., may be cited as an illustration of the advantages of the latter course.

(2) Diversity in Administrative Set-up

The tremendous multiplicity of forms has created another problem of diversity in administrative set-up.



While companies and organisations are generally managed by a Board of Directors, departmental undertakings are usually placed in charge of a single official, subject to the normal departmental control, with some important exceptions like Railways.

The strength of the Boards of Directors varies from 8 to 13. The ratio of full time and part-time Directors also varies from undertaking to undertaking. Further experiments have been made in including officials and non-officials in several Boards in appointing Ministers, Secretaries, Members of Parliament or non-officials as whole-time or part-time chairman of a company or corporation. There is a great diversity even in the tenure of the Boards of Directors.

This diversity in matters of administration of the various forms of public Enterprises connected with the diversity in allied matters of Financing arrangements, Audit and Accounts, and Government and Parliamentary controls has raised another important issue whether it is not desirable to have all the Public Undertakings conform to a common pattern or pattern by enacting a General Law for Public Enterprises?



Such General Laws are already in existence in the U.S.A., Canada, Turkey and the Philippines, and the Estimates Committee of our Parliament has already recommended that a similar Law in India should also be enacted in order to secure some sort of Uniformity in the variegated administrative set-up structures and forms of our statutory corporations and the State Companies. The proposal for a Standing Committee of the Parliament to exercise control and supervision over the expanding public enterprises may also be seriously considered.

Typed by : M. El-Khateeb

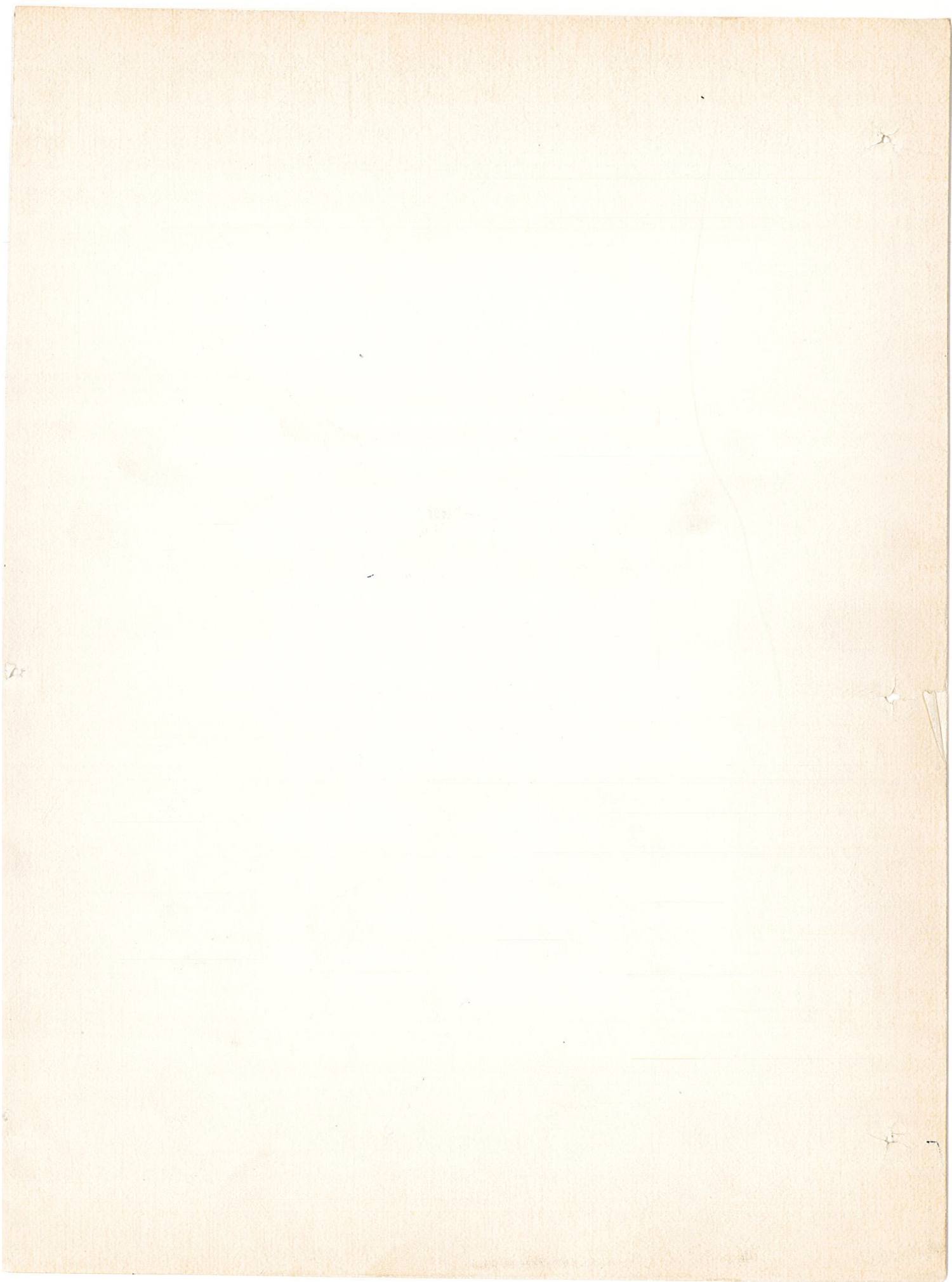














resource-allocation between various sectors of our total economy. We are now said to be at the beginning of the 'take-off' stage. As more and more resources are created, more and more allocations can be made for public enterprises in agricultural and commercial fields, which are at present operated mainly by private initiative and enterprise.

The ultimate object of our developmental policy is the creation of a 'socialistic pattern of Society'. Essentially, this means that the basic criterion for determining the lines of advance must not be private profit but social gain, and that the pattern of development and the structure of socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment, but also in greater equality in incomes and wealth." It is plainly not the 'ideology' of total State control. And is it not also open to doubt whether social and economic inequalities have been completely removed in 'Russia', or 'Class struggle' completely eliminated in China? Why should we then blame our public enterprises for not being able to remove the distance and the disputes between the rich and the poor to any considerable extent in such a short span of time? reduction in inequalities in income and wealth, is a very complicated process in a 'democratic' set up. "The pattern of investment proposed in the plan,



taking initiative in starting new undertakings in basic and heavy industries, and in having progressive control over such industries as machines-tools, essential drugs or basic chemicals in the industrial fields; but the state initiative has so far been lacking in giving higher priorities to such public undertakings as reclamation of wastelands, establishment of state farms or agricultural equipment factories in the agricultural sector, or incomplete nationalisation of our Banking system and Road transport in the fields of Finance, Transport and Communications. But, this apparent imbalance in public enterprises seems to have been created mainly on account of the following reasons. Basic industries, such as steel, fuel and power and machine building had to be established in the public sector, not because our planners were socialists, but because not even the vast wealth of our private Corporate sector could in these days have financed such national enterprises. Private enterprise could not have developed steel, shipbuilding, locomotives, electrical and chemical industries at the 'rapid' rate demanded by our planners. Their importation would have been expensive, difficult and subject to long delays. The part played by our public enterprise in the first two plans has, therefore been dictated far more by 'objective' reasons than by 'ideological' considerations. The establishment or the expansion of public enterprises demanded very heavy investment. Due to comparative lack of capital resources 'priorities' have and will have to be fixed in matters of



In our developmental pattern of 'dualist economy' both the public and the private sector can co-exist as there is ample scope in India for the co-existence of both the sectors. The human and material resources of our country are virtually unlimited. Unaided, the public sector may not be able to make full and effective use thereof. The private sector must, therefore, continue to function in its appropriate sphere, not so much in its own interest, but in the general national interest of Common good, subject to a certain degree of co-ordination and control by the State Government. As both the sectors are virtually interdependent, it is the policy of our State to give fair and non-discriminatory treatment to both of them. But the scope of both the sectors is to be judged in relation to their role in national development. To the extent they do not fulfil the economic or social purposes in view, they can be transformed or replaced.

It is true that no very clear line of demarcation has been drawn in our Industrial Policy statements between the Public and the private enterprises. The division of Industries into separate categories has a great deal of 'dovetailing' in both the sectors, and they have not been placed in 'watertight compartments'. This might have been deliberately done due to the peculiar features of our 'dualist economy' or to ensure a large amount of flexibility for our future planning.

Great and increasing emphasis has, however, been laid on the state



Statements of 1948 and 1959, which should be judged in the light of (1) the developmental pattern adopted, (2° the pace of economic progress at which we want to proceed, (3) the availability of capital and other resources, and (4) the achievement of our broad social objective the creation of the 'socialist pattern of Society',

The critics of our developmental pattern which envisages a 'dualist economy' or a 'middle way', generally raise the following sets of questions: -

1. Why both the public and the private sector should co-exist? Why a clearer line of demarcation cannot be drawn between the public and private enterprises? Why more emphasis should be laid on the state control in the Industrial Sector? Why the development of basic and heavy Industries should be the 'exclusive responsibility' of the State?

2. What is the objective to be achieved by creating a 'socialist pattern of Society? How far public enterprise has been able to remove social inequalities and class struggle? Is the 'Communist Way' not better than the 'middle Way'?

The answers to these sets of questions are by no means easy, but attempt can be made in the brief span of this study to find out some plausible answers in order that the scope of public enterprise in our total developmental pattern can be better understood.