

Management of Public Sector Enterprises: Shifts and Continuities in Public Policies

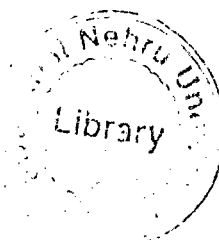
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MASTER OF PHILOSOPHY

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Certificate

Certified that the dissertation entitled “**Management of Public Sector Enterprises: Shifts and Continuities in Public Policies**”, submitted by **Amrita Shilpi** in partial fulfillment of **Master of Philosophy** degree of this university. This dissertation has not been submitted for any other degree to any other university and is her own work.

We recommend that this dissertation be placed before the examiners for evaluation.

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DEDICATION

To Mummy and Papa.....

.....with love

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(AMRITA SHILPI)

INTRODUCTION

Public Sector Enterprises have occupied a very important position in the economy of India. The sector was established much before the attainment of independence by the colonial government. However, the policy of British Government was motivated by profit and not social development. So the industrialists and political leadership agreed on a common agenda that the state should intervene in the economy. The reason was that there were many spheres where private sector was reluctant to enter and also they did not want concentration of money in private hands. The objective of setting up of socialistic pattern of society was a priority.

Industrialization was seen as one of the methods which would bring social and economic development in the country leading to higher standards of living and greater equality of opportunity. Jawaharlal Nehru, the visionary behind industrialization said that, "The growth of industry, big and small, is essential for any modern nation. Indeed without Industrial development there cannot be any higher standard of living for our people or even strength for it to preserve its freedom".¹

The public sector was conceived as an instrument of State policy to implement the socio-economic policies of the government of the day. The Constitution of India in Article 39 envisaged an economic system which "does not

¹ Cherunilam Francis, "*Industrial Economics- Indian Perspective*"; Himalaya Publishing House; Bombay; 1989; p. 347.

result in concentration of wealth and means of production to the common detriment”, and to ensure that “the ownership and control of material resources of the community are so distributed as best to subserve the common good”. The objective of socialistic pattern of society and the need for planned and rapid development gave direction and impetus to the modus operandi that was to be adopted for accomplishing certain goals.

The policy of Government of India towards industrialization was made clear in the first Industrial Policy Resolution of 1948. The Resolution emphasized the importance of Public Enterprises in the economy in order to secure a continuous increase in production and ensure its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. The Industrial Policy Resolution of 1956 widened the scope of Public Sector and reiterated the socialist pattern to be followed. The role of Public Sector was made clearer, “The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, requires that all industries of basic 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 present circumstances, could provide, have also to be in the public sector.”

With time the public sector kept on expanding in all areas of economy from strategic and basic industries to consumer goods industries and to meet new challenges, the government revised and announced its industrial policies

in 1973, 1977, 1980 and 1991. However, the public sector failed to achieve the commanding heights in the economy that was expected from it. What could have been the reasons for it?

The performance of public sector enterprises has been under scrutiny almost from the time they were established. Issues from the multiplicity of their objectives, to their management to the extent of government's indulgence in their functioning have been a matter of discussion since a long time. Various committees were set up to evaluate their performance and suggest ways for better functioning. Scholars indulged in extensive research to find out the maladies. They came up with several factors resulting in poor performance of the public enterprises. According to some, the multiple objectives set for the working of the public enterprises are quite often confusing and contradictory. Some are of the view that the indulgence of government in the name of accountability has stunted the growth of public sector. Paul Einzig, explains accountability as not only the submission of accounts of completed expenditure for inspection by the parliament, but also the parliament's right to criticize public expenditure and to apply sanctions in case of unauthorized and excessive expenditure². The basic dilemma that exists here is that of reconciling the operating and financial flexibility required for the successful conduct of a business enterprise, with the need for controls to assure public accountability and consistency with public policies.³ Was there any effort towards reconciliation?

² Einzig, Paul, "*Control of the Purse*"; Secker & Warburg; London; 1959; p. 86.

³ Mathur, B.P, "*Public Enterprises in Perspective*"; Orient Longman Ltd; New Delhi; 1973; p.17.

Several committees were set up to review the performance of public enterprises. They came up with various suggestions to improve their performance. However their recommendations rarely got implemented or institutionalized. Regarding the measures taken to restructure the public enterprises, it is believed that government's efforts were in the form of 'cleaning the slate'⁴. Now the question which arises is that what has been the effort of the government towards improving the performance of public enterprises in the various policies issued so far?

The following study intends to look into the industrial policies issued so far (from 1948 to 1991). The idea is to map the industrial policies and try to locate the shifts and continuities that have come about in these policies.

Chapter I, *'The Public- Private Debate: Emergence of Public sector Enterprises'* attempts to find out as to when and how did the concept of public and private sphere came into being. Along with that, it also tries to look into the factors which led the state to intervene in the economy. Very briefly the chapter also looks in to the emergence of public sector in India.

Chapter II, *'Public Sector Enterprises in India'* traces the growth of public enterprises from pre- independence period. In this chapter an attempt has been made to discern the role of the public enterprises in the Indian economy. The idea is to study the public enterprises in detail right from its organizational structure to its performance; thus trying to analyze the weaknesses of the public sector .

⁴ Ramachandran, K.S, " *Reform the Unfolding Story*"; Konark Publishers; Delhi; 1996; p. 88.

In Chapter III, '*Industrial Policy Resolutions (1948- 1991): Shifts and Continuities*' an attempt has been made to map the industrial policies of the government and draw comparisons within these policies. The idea is to try and find out the elements that have been carried forward and also the shifts that have come about in these policies.

CHAPTER I

PUBLIC-PRIVATE DEBATE: EMERGENCE OF PUBLIC SECTOR ENTERPRISE

The relative roles of the state and the market, as also of public and private ownership have been matters of analysis and debate for a long time.¹ State control of economic activities and even direct participation in industry could be traced to ancient times from Greek and Roman empires down to Mercantilism of the 16th and 17th century. The state intervention was generally carried on in two ways:²

- (a) The indirect form in which the state with all its powers influenced the economy by means of legislation and administration.
- (b) The direct form in which the state acquired the form of an entrepreneur and either by itself or through its agencies, engaged in production and trade.

The forms of state intervention in the economy which forms the core of the present discussion are those which were acquired by the western world since the French Revolution and later the Industrial Revolution.

The period of Renaissance in Europe witnessed the revival of art and literature. It resulted in complete change in the outlook of the people towards life

¹ Reddy, Venugopal, "*Public and private Ownership A framework of Analysis*", in Dr S.R Mohnot (ed), "*Privatisation Options and Challenges*"; Industrial techno-Economic Services Pvt. Ltd; New Delhi; 1991; p 46.

² Agarwal, R.C, "*State Enterprise in India*"; Chaitanya Publishing House; Allahabad; 1961;p. 1.

and consequently extended into philosophical, scientific, economic and technical fields. Be it art or literature, or science and technology – all contributed to the development of new social and political ideas during this period and these ideas were patronized by the new wealthy merchant class in Europe.

The 16th century Europe witnessed the Reformation movements. Reformation promoted individualism by advocating private judgment in interpreting the Bible. It challenged the exclusive authority of the Catholic Church and resulted in the establishment of Protestantism.

During the 16th and 17th century thinkers like Voltaire, Rousseau, Montesquieu, Locke, Hume, Adam Smith, Kant, etc. made a notable attempt to reduce social and political problems to scientific terms. Now truth had scientific method of discovery. The Scientific Revolution led to the invention of new machines that transformed the mode of production from an agrarian to an industrial system. The industries produced a variety of goods on a large scale, which needed new markets for their distribution. This opened new frontiers of commerce. Industry and commerce offered new and promising fields for the men of ideas who could launch new enterprises, raise and multiply their capital and thus control the newly developed means of production. The Industrial Revolution radically altered the basis and conditions of society.

During the long stretch of social economic and technical progress in the century which extended till the end of the First World War, the state developed on the principles of liberalism where the forces of capitalism were left with maximum freedom of choice and action. The job of the state was to create the

most suitable framework for their activities by means of taxation, custom duties, public works and foreign policy³. It was not expected from the state to act as a mediator between classes and conflicting interests or to see that the growing wealth was fairly distributed. Its indirect intervention in the economic sphere was reduced to a minimum and was directed towards promoting the development of capitalism. The state was separated from the economy so that market could develop according to its laws of supply and demand. Such division led to a formulation of certain rules and practices of state or public terrain, which could be distinguished, from those of private sphere.

The Public- Private Debate

Before moving further, let us see how the concept of public and private sphere emerged with the rise of new bourgeois class.

The concept of public and private can be traced back to the times of ancient Greek city-state where there existed the sphere of the '*polis*', which was common to the free citizens.⁴ But this sphere was strictly separated from, the sphere of '*Oikos*' in which each individual was in his own realm ('*idia*'). The public life, '*bios politicos*' went on in the market place, but this was not only in this specific locale. The public sphere was constituted in discussion ('*lexis*'), which would also assure the forms of consultation and of sitting in the court of law, as well as in common action ('*praxis*'), be it the waging of war or competition in athletic games. The private sphere was attached to the house. The reproduction of life, the labor of slaves and the service of the women went on

³ Bordini, Marcello, "*State Intervention in the Economy*"; Indian Journal of Public Administration, Volume IX, Jan- Mar 1965; p. 1.

⁴ Habermas, Jürgen, "*The Structural Transformation of the Public Sphere*"; p. 3.

under the aegis of the master's domination; birth and death took place in its shadow; and the realm of necessity and transition remained immersed in the obscurity of private sphere.

The German word '*privat*' which was borrowed from the Latin word '*privatus*', can be found only after the middle of the 16th century, having the same meaning as was assumed by the English 'Private' and the French '*prive*'. It meant not holding public office or official position. '*Private*' designated the exclusion from the sphere of the state apparatus; for 'public' referred to the state that in the meantime had developed, under absolutism into an entity having an objective existence over against the person of the ruler. The public ('das Pulikum, le public), was the public authority (*öffentliche Gewalt*) in contrast to everything 'private' ('*Privat wesen*'). The servants of the state were '*öffentliche Personen*', public persons or '*personnes publiques*' they were incumbent in some official position, their official business was 'public', and government buildings and institutions were called 'public'. On the other hand, there were private individuals, private offices, private business and private homes. The authorities were contrasted with the subjects excluded from them; the former served, so it was said, the public welfare, while the latter pursued their private interests⁵.

As a sphere between civil society and the state in which critical public discussion of matters of general interest was institutionally guaranteed, the liberal public sphere took shape in specific historical circumstances of a developing market economy.

⁵ Ibid, p.11.

Habermas's definition of public sphere stems from his analysis of the development of the bourgeois society in 17th and 18th century Europe in which private citizens came together as a public to discuss matters of public concern or common interest and to criticize and put pressure on the absolutist state⁶. In traditional feudal society the ruler was the public and represented his status and right before the people. The people participated in the state affairs from their place in the hierarchically ordered feudal structure. With the transition to an impersonal state, the growth of a bourgeois economy and the emergence of a private realm of the bourgeois family, Habermas argued, private citizens came together as a public in an intermediary sphere of social institutions like the club, journals and periodicals. These citizens, in the free and rational exchange of ideas, formed public opinion and created a 'language', 'codes' and 'practices' to express it. The general public these citizens spoke of was actually quite limited and consisted mainly of the bourgeoisie and the titled gentry, yet in its self understanding, this literary sphere was 'the public' and was accessible to all. However, with time the practice of reason by the bourgeoisie and the virtue of publicness also became available to the non-bourgeoisie, sub-altern groups or wide sections of social classes like the peasantry or the working class. "... the positive values of the liberal public sphere quickly acquired broader democratic resonance, with the resulting emergence of impressive popular movement each its own distinctive movement cultures (i.e. from public sphere)"⁷.

⁶ Orsini, Francesca, " *The Hindi Public Sphere 1920- 1940 Language and Literature in The Age of Nationalism* " ; Oxford University Press; New Delhi; 2002; p. 9.

⁷ Eley, Geoff, " *Nations, Publics and Political Cultures* ", as quoted in "The Hindi Public Sphere 1920-1940 Language and Literature in The Age of Nationalism" ; Oxford University Press; New Delhi; 2002 by Francesca Orsini; p.10.

Reason became the universal standard for criticism and soon enough, critical debate moved from questions of taste to questions of state i.e., to political matters, for example requiring the information about state functioning be made accessible so that state activities would be subject to critical scrutiny to the influence of public opinions. Such debates fostered a public discussion on the rules and functions of the state, crystallized citizenship ideas and also gave rise to the more abstract idea that actions were rationally acceptable only after they had been subjected to the process of public judgment.⁸

Habermas, defines public sphere as: “By the ‘public sphere’ we mean first of all a realm of our social life in which something approaching public opinion can be formed. Access is guaranteed to all citizens. A portion of the public sphere comes into being in every conversation in which private individuals assemble to form a public body. They then behave neither like business or professional people transacting private affairs, nor like members of a constitutional order subject to the legal constraints of a state bureaucracy. Citizens behave as a public body when they confer in an unrestricted fashion that is, with the guarantee of freedom of assembly and association and the freedom to express and publish their opinions – about matters of general interest”⁹.

Bowles and Gintis define the term ‘public’ as those spheres of social life over which the twin norms of liberty and democracy may rightly be held to apply. According to them, liberal democratic theory considers the state in this

⁸ Orsini, Francesca, “ *The Hindi Public Sphere 1920- 1940 Language and Literature in The Age of Nationalism*”; Oxford University Press; New Delhi; 2002; p.10.

⁹ Habermas, Jürgen., “ *The Public Sphere*”, *New German Critique*, 3, 1974, p.49, as quoted in Francesca Orsini, “ *The Hindi Public Sphere 1920- 1940 Language and Literature in The Age of Nationalism*” ; Oxford University Press; New Delhi; 2002; p.11.

sense a public institution. On the other hand private spheres are those spheres over which only the conditions of liberty apply. Different modes of expression of individual rights, freedom of conscience, expression, association, choice etc. comes under this category¹⁰.

Regarding the liberal position Bowles and Gintis point out that the principle of liberty holds that individuals have certain rights, which a just society should not violate. But at the same time the principle of democracy says that the just society must ensure popular sovereignty. People should have a voice in the substantive decisions that affect their lives. Liberal democratic theory generally supports the application of both liberal and democratic principles to the state, but only the principle of liberty to the economy most liberals argue that the economy, with suitable state regulation, should remain private¹¹.

However, the public-private partition is neither fixed, natural nor obvious. In course of time, the boundaries between public and private have been drawn and redrawn¹². The capitalist development showed that the liberal theory of private entrepreneur's gain and automatic play of the market was incapable of achieving adequate production rates and conditions to meet the needs of the masses because of the demands for social redress.

Role of State during War Period

During the First World War the production and distribution mechanism had to be adapted to meet very different needs from those of peacetime

¹⁰ Bowles, Samuel and Gintis, Herbert, " *Democracy and Capitalism*"; Routledge and Kegan Paul; London; 1986; p. 66.

¹¹ *ibid.*, p.67.

¹² Mathur, Kuldeep, " *Privatisation as Reform Liberalization and Public Sector Enterprises in India*".

operation. The state took on new jobs and responsibilities and had to make the necessary adjustments to cope with them. The war and its aftermath gave the principle that the good of the community should take precedence over the good of the individual and should be promoted even at the expense of the latter. Along with the political and social upheavals new situations were arising which gave a new course to the economy. For e.g. the rise of trade unions, increase in the size of the firms due to new techniques and the nation wide and world-wide links established between firms gradually called for situations where the state intervention in the economy became necessary¹³.

The Modern State, with the advent of universal suffrage became representative of every citizen. Balancing economic and social forces in defense of freedom, defending the interests of the many against the actions of few, and above all promoting and maintaining economic progress – these were the aims which the state pursued both by means of general economic policy and direct intervention.

The Keynesian welfare state was accepted which asserted the primacy of the public over the ‘invisible hand’ of the market and engendered expectations that the state was responsible for meeting the needs of the citizens¹⁴. The state was given the responsibility to accelerate the development. In this scenario, the goal of development was growth, the agent of development was the state. The Keynes-Beveridge approach was based on the idea of correcting the tendencies

¹³ Bordini, Marcello, “*State Intervention in the Economy*”; Indian Journal of Public Administration, Volume IX, Jan- Mar 1965; p. 2.

¹⁴ Mathur, Kuldeep, “*Privatisation as Reform Liberalization and Public Sector Enterprises in India*”.

of a market economy through judicious state intervention and limited forms of social policy¹⁵.

The state operated and owned the means of production generally in one sector only commonly known as Public Sector which consisted mainly of defense basic and key industries, the objective being to maximize the production in shortest possible time essentially to meet the social needs in place of demand and also to effect move and move equitable distribution of production. Public enterprises thus became a method and an instrument that the state could utilize with advantage to achieve certain socio economic objectives.

The need for public enterprise arose out of the fundamental duty of the state to work for the welfare of the people. Dupont-white, a French economist summarizes the need for state intervention in the following words, "There are certain vital things which the individual can not do, either because he has not the necessary strength to perform them or because they would not pay him, or again because they require the cooperation of every body which can never be got merely by common consent. The state is the one person – the entrepreneur -- who can undertake such tasks"¹⁶. Public enterprises were promoted to adjust production to social needs. Along with it, the equitable distribution of social product could be achieved only through the state ownership and operation of production.

The concept of Public utility was at the heart of setting up the Public Enterprises¹⁷. There has almost always been the need for and responsibility of

¹⁵ Mishra, Ramesh, " *The Welfare State in Crisis Social Thought and Social Change* "; Wheatsheaf Book Ltd; Sussex; 1984; p. 104.

¹⁶ Agarwal, R.C, "*State Enterprise in India*"; Chaitanya Publishing House; Allahabad;1961;p.5.

¹⁷ *ibid.*, p. 40.

the state to control certain economic activities like trade and industry and to ensure against discrimination and exploitation and at the same time to patronize other activities for ensuring regularity of supply and reasonable prices. Certain economic activities — trade and industry are traditionally known and accepted as ‘utilities’ or ‘Public Utilities’, such as water works, communications, means of transport and power.

Public utilities amount to virtual monopolies. Monopolies are characterized with excessive power of bargaining and disproportionate power of discrimination. State interventions became a must to correct the disequilibria, to take away the disproportionate power of discrimination and bargaining. Every regulation of public utility aims at creating such conditions under which the disadvantages caused to consumers in particular and national economy in general arising due to the absence of competition would not exist. It aims at bringing about the economic equilibrium even under monopolistic conditions with a view to attain general economic good.

In the hands of the state, public enterprises have played a very significant role in controlling and guiding the socio-economic destinies of the nation. They play different roles depending on the motivation and directive process that move the state into action with regard to state initiative and participation in the economic field. Thus it has been in relation to the pattern of the national economy intended to be built by the state, as under socialism or mixed economy that the public enterprise have played a vital role. The State resorts to total nationalization generally in the communist countries. The entire economic apparatus is owned by the state and subjected to highly centralized control.

Fascist or Nazi state resorts to Public Enterprise in building up powerful state capitalism. In a mixed economy public and private enterprise work side by side in perfect coordination like the two limbs of a living organism¹⁸. Private enterprise is given all encouragement and support provided it does not fall in line with state policy in economic field and the Public enterprise is promoted in all such fields where private enterprise is considered incapable or undesirable.

W. Friedman refers to the public enterprise as a near universal phenomenon¹⁹, which is found, with great varying frequency and importance, in any country that has reached a certain degree of industrial and social development. It exists in United States as well as in Pakistan, in Sweden as well as in Israel. It has become an important and probably an indispensable part of modern life and its growth indicates a significant change in economic and social thinking between the 19th and mid-20th C.

Its development is due to a variety of motives, pressures and purposes that differ from country to country and from Government to Government.

Friedman distinguishes three main motives behind the establishment of public enterprises²⁰:

- (a) Lack of Private Investment Capital
- (b) Political Philosophy
- (c) Political and Practical motives.

¹⁸ *ibid.*, p.4.

¹⁹ Friedman, W, "*A Theory of Public Industrial Enterprise*", in A.H Hanson (ed.) "*Public Enterprise A Study of its Organisation and Management in Various Countries*"; International Institute of Administrative Sciences; Brussels; 1955; p.1.

²⁰ *ibid.*, p.3.

Practical need of a nationwide development of a utility or commodity, for which private investment capital is not available or insufficient, appears to be the predominant reason for the establishment of public enterprises. To quote a British journal 'The Economist', "The most likely field for state enterprise in an expanding economy is where private enterprise is underdeveloped: in new industries and new products where the rises are great and private 'entrepreneur' in an age of capital scarcity and high taxation of profits may well long back"²¹.

All underdeveloped countries, in pursuit of economic growth found state investment in industry a necessary feature. The public sector stepped in where private sector was reluctant to enter, it was intended to increase the total volume of investment and thus helped to insure a minimum rate of growth where the private sector left to itself would have been deficient.

It may be said that these two considerations: the need for basic national economic development in underdeveloped countries and the satisfaction of urgent and defense and strategic needs are among the most widely accepted and frequently accepted motives of public enterprises²².

Public Sector in India

India's commitment to public sector has been long standing and was articulated from time to time even during the national movement. As early as in the first decade of the 20th century under the then existing condition even the

²¹ Friedman, W, "*A Theory of Public Industrial Enterprise*", in A.H Hanson (ed.), "Public Enterprise A Study of its Organisation and Management in Various Countries; International Institute of Administrative Sciences; Brussels; 1955; p.1.

²² *ibid*; p.1.

bureaucratic foreign government felt the imperative need in India, for positive action by the state by way of initiative and direct participation in economic activities, beyond the accepted field of utilities, supplying essential services like the communications and water works etc. In fact the Presidency Government of Madras established a few industrial undertakings. The efforts were favored by the government of India and received the most unqualified support from the Indian entrepreneurs²³.

Mahadev Govind Ranade advocated state promotion of industrialization through protection as early as in 1906. Late, Visvesvarayya presented in 1931 a ten-year plan for rapid industrialization of the country initiated by the state. This was followed by the constitution of a National Planning Committee by the Indian National Congress in 1938. In 1944, Indian industrialists including JRD Tata, G.D Birla, Shriram, and Kasturbhai Lalbhai also prepared a plan for India's economic development that came to be popularly known as '**Bombay Plan**'. The Bombay plan is an exceptional document as it provides insight into the mode of thinking among some of the most prominent industrialists²⁴. The following quotation from the Plan sums up their position on some of the core issues in industrial development:

"It is an important part of the proposals regarding industrial development that in the initial stages attention should be directed primarily to the creation of industries for the production of power and capital goods. Nothing has more

²³ Agarwal, R.C, "*State Enterprise in India*"; Chaitanya Publishing House; Allahabad;1961;p. 2.

²⁴ Degnbol-Martin Ussen (John), "*Policies, Institutions and Industrial Development*"; Sage Publications; New Delhi; 2001; p. 78.

seriously hindered the development of India's industrial resources during the war than the absence of these basic industries and we consider it essential that this lack should be remedied in as short a time as possible. Apart from its importance as a means of quickening the pace of industrial development in India, it will have the effect of ultimately reducing our independence on foreign countries for the plant and machinery required by us and, consequently, of reducing our requirements of external finance."

This plan highlighted the need for constituting a Central Planning Authority and developing domestic capital goods industries. The reports of the National Planning Committee as well as the Bombay Plan explicitly put forward to development concepts, namely, central planning and the role of public sector²⁵.

The Constitution of India refers to the desirability of communal ownership and control of the material resources of the country — also of the need to prevent concentration of wealth and means of production²⁶. The Directive Principles of State Policy enjoin on the state to ensure that "the ownership and control of the material resources of the community are so distributed as best to sub serve the common good", and further that, "the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment" Article 39(b) and (c) of the Constitution of India²⁷.

²⁵ Luther, M.M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p.22.

²⁶ Shriram Maheshwari, "Ecology of Public Enterprises in India"; *Indian Journal of Public Administration*; October- December 1981; p.1034.

²⁷ *ibid*; p.1034.

The constitutional behests were more fully orchestrated by the Industrial Policy Resolution of 1948 and the subsequently in 1956. The public sector emerged for the first time under the Industrial policy Resolution of April 6, 1948 as the most significant and powerful flank of the industrial policy of free India. Since then it has gained momentum expanding in diverse directions and has been considered as the dynamics force particularly in control of the Socio-economic objectives which can be summed up in the phrase socialist pattern of society²⁸.

Rapid industrialization in India required speedy development of two thrust areas: creation of an adequate infrastructure like transportation, power and communications and setting up of basic and heavy industries. Heavy industry and infrastructure development projects were not only capital intensive; they had long gestation periods. Investment required was huge and returns low or uncertain²⁹. The setting up of Public enterprises could be summed up in Pt. Jawaharlal Nehru's question, 'Should economic activity, and in the case of an under-developed country like India, economic development also, be determined by the private profit motive, or alternatively, should social good as embodied in a National Plan determine this process of development? Private profit motive and social good are not necessarily mutually exclusive. In fact, they do not always coincide. When they do not, it is the social good as democratically determined and implemented by means democratically controlled, the must prevail. The former dictates investment in areas where profitability is high and returns not greatly delayed. Social good, on the other hand, may require

²⁸ Agarwal, R.C, "*State Enterprise in India*"; Chaitanya Publishing House; Allahabad; 1961.

²⁹ Luther, M. M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p.23.

investments in long gestation, low profitability infrastructure areas and State operation of certain loss-making activities'.³⁰

Public sector at its inception was meant to address two broad areas:

- (a) Creation of adequate infrastructure, like power, communication and transportation;
- (b) Setting up heavy industry for production of machinery and plant for manufacture of steel, fertilizers, etc., mining equipment and special purpose heavy machine tools.

The state gave a mandate for creation of a strong public sector that would dominate "the commanding heights of the economy"³¹. This was the interpretation of the oft-repeated comment till eighties. The commanding heights were not to be attained by the public sector operating only in infrastructure and heavy industry areas. It would be vested with the power to shape the pattern of investment in the whole economy.

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Industrial Policy from Nehru to Indira Gandhi Period

In the post independence period, the conditions for industrial development were much more favourable than in the colonial period. At the time of independence, political leadership identified the future of India with the developments in the West. Nehru strongly believed that the progress of the country depended upon the development of agriculture and industry. He was quite impressed with the development in Soviet Russia and also by the

³⁰ *ibid.*, p. 23.

³¹ *ibid.*, p.24.

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achievements made possible by planning and rational allocation of resources. After his first visit to Soviet Russia in 1927, the idea of national planning had gripped his mind³². He pointed out, “planning essentially consists in balancing between industry and agriculture, the balancing between the heavy industry and light industry and other industry.” With emphasis on rational allocation of resources industrialization planning and state intervention became central to the strategy of development initiated through the various Five Year Plans. In this strategy, Public Enterprises occupied a significant place.

Indira Gandhi’s tenure witnessed the strengthening of state controls and state entry into the service sector on a larger scale. Public sector played a leading role in the manufacturing sector during the second and third plan period. This was the period when the public sector walked in areas where the private sector was unable or hesitant to take any chance³³. In Indira Gandhi’s period, public policy stressed regulation of monopolies and public sector came to acquire a more ideological role of providing greater equity and justice in the society. The service sector also joined in. the public sector now came to be seen as a ‘pace setter’ in high technology industries and an institution to generate sizeable resources for new investments

With time, the span of public enterprises kept extending to others of economic activity and by mid-1970s it included many primary consumer goods industries. The Parliamentary Committee on Public Undertaking (COPU) in its 40th Report in 1973-74 strongly recommended the entry of public sector in the

³² Padhy, K.S and Behera, A.K, “*Industrial Policy of India*”; Discovery Publishing House; Delhi; 1988 ,p.57..

³³ Mathur, Kuldeep, “ *Privatisation as Reform Liberalization and Public Sector Enterprises in India*”.

area of consumer goods. Along with it, a large number of industries like coal, insurance and textiles were nationalized. In order to safeguard the interests of the workers, a large number of loss making, sick industrial units of the private sector were taken over. This takeover of sick industrial units of the private sector to protect employment and to maintain production in them, even at a loss, became a part of political dogma³⁴. The strategy of maintaining full employment of all workers in a large number of sick private units by absorbing them in the public sector developed into a deliberate policy of the government.

However, in the 1980s the economic situation of the country deteriorated. Widening of fiscal deficits, inflationary pressures and aggravation of balance of payments position, two IMF loans, low foreign exchange reserves, the scenario, of acute balance of payments crisis, stagnating production, and soaring inflation led the government to adopt the policy of economic liberalization in 1991.

With time Public Enterprises, which formed the critical governing instruments of a welfare state, came to be seen as ineffective and inefficient delivery systems which should be removed from the realm of political negotiations.³⁵ Public enterprises have witnessed three phases- first phase from 1951 to 1965 when the country could build strong industrial base; second phase between 1965 to 1980, when it had to face sharp deceleration and third phase after the wave of privatization in 1991. The next chapter charts the growth of the Public Sector Enterprises in India.

³⁴ Luther, M. M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p.26.

³⁵ Mathur, Kuldeep, "*Privatisation as Reform Liberalization and Public Sector Enterprises in India.*"

CHAPTER II

PUBLIC SECTOR ENTERPRISES IN INDIA

Public enterprises have occupied a key role in the policies and programmes of economic development in India. The logic of establishment of public enterprises as a part of socio-economic policy is inherent in the economy. They were set up not only for ideological reasons but also because of the inability of private entrepreneurs to do so. In many strategic industries and others requiring huge investments and longer gestation period, the private entrepreneurs were unable to make any substantive contribution. Public Enterprises have been a significant part of the Indian economy even before the advent of independence.

Public Enterprises in Pre-Independence Period

It can be said that the origin of modern Public Sector Enterprises in India took place in 1830 when 'Mathematical Instrument Office' (later called as National Instruments Factory) was established. However, since the policy of the British Government was of profit maximization, the public enterprises had no egalitarian objectives of post independence period.

K.L. Gupta has traced the establishment of public enterprises up to pre- plan period in three stages¹:

¹ Gupta, K.L., "*Research and Development in Public Enterprises*"; Indus Publishing Company; New Delhi; 1994; pp. 25-27.

First stage: 1830 - 1913

This stage witnessed setting up of the ordinance factory, in 1834, after which manufacture of arms and ammunition has been undertaken by public sector only. Postal system was expanded and for the first time telephone was introduced as a Government owned public utility in 1882. Apart from these the provincial governments also evinced some interest in the public enterprises.

Second stage: 1914 - 1938

This phase also saw quite a number of public enterprises set up by the Government but one interesting development was that provincial governments and Indian princely states started taking keen interest in the development of public enterprises. For example, Mysore State set up Mysore Iron and Steel Works in 1918 and Mysore Sugar Company in 1924, Hyderabad State established Singreni Collieries Company in 1920 and Nizam Sugar factory in 1937, Government of U.P promoted Indian Bobbin Company and Indian Turpentine and Rosin Company in 1924.

Third stage: 1939 - 1947

The Second World War attracted the attention of the government towards proper development of industries. Many public enterprises ranging from 'Department of Planning and Development', to fertilizers, chemicals, tanneries, sugar mill, aircraft etc. were established by the government.

As stated earlier, during the colonial period, industrial policies and economic policies, in general, were essentially shaped by the British interests. But years before independence, the role of the state in country's industrial development formed a core issue of discussion among Indian business representatives and leading politicians of the Indian National Congress. The Federation of Indian Chambers of Commerce and Industry (FICCI) representing the Indian business community, on several occasions argued in favour of state intervention to promote industrial development of British India, particularly during the last decade of the colonial era.² In addition to requests for short term measures, leading business representatives also engaged in long term planning. The most important document that emerged from these endeavors was the Bombay plan, prepared by leading industrialists. It was published in 1944 and gave an important input to the decision-making process after independence. The Bombay Plan is worth referring to in the present context, since it argued in favor of state interventions not merely to develop physical and social infrastructure, power and communication but also to lead and guide the development of the private industrial sector in accordance with Indian National interests.

Public Enterprises in Indian Economy after Independence: The Five Year Plans

The vast extension of Public enterprises in Indian economy, after independence, has not come about fortuitously. Behind it, there is planned development and behind this planned development, there is a social and economic

² Degnbol-Martin Ussen (John), "*Policies, Institutions and Industrial Development*"; Sage Publications; New Delhi; 2001; p. 78.

philosophy.³ This philosophy has been spelt out in the plan reports as well as in the Government's Industrial Policy Resolutions. Broadly speaking, the economic objective behind this extension was to help in building up the economy by undertaking enterprises which were essential from the point of view of economic growth and which nevertheless, either by virtue of the size of capital involved or other reasons were not likely to be taken by the private sector.

The document of the *First Plan* 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 unable or unwilling to put up the resources required and run the risks involved". The topmost priority in the first plan was given to the improvement in the production of food and raw materials, which were essential for creating a firm foundation for industrial expansion. The *Second Plan* went a little further and stated, "The public sector has to expand. It has not only to expand development which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes investments directly or whether they are made by the private sector." The second plan, heralded, a new era which witnessed an industrial revolution in the country. More than one fifth of total

³ Rao, V.K.R.V, "*The Role of Public Enterprises in the Indian Economy*"; in 'Public Enterprises' by T.N Chaturvedi; I.I.P.A; New Delhi; 1984; pp.1-3.

expenditure was incurred on industrial programmes⁴. This helped lay the foundations for a self sufficient industrial growth in the country. The plan also asserted the importance of using the public sector as an instrument for preventing concentration of economic power. Thus, it is stated in the document “Public ownership, partial or complete, and public control or participation in the management are specially required in those fields in which technological considerations tend towards concentration of economic power and wealth.”

The *Third Plan* emphasized the expansion and diversification of capacity of heavy engineering and machine building industries, stepping up of output of fertilizers and petroleum products. About the public sector, the third plan carried the argument of second plan further and made it more specific and categorical. It is stated in this document that, “ 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 two fold purpose. It helps to remove certain basic deficiencies in the economic structure and at the same time it reduces the scope for the 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 the functioning of the economy as a whole.”

Between the Third and Fourth Five Year Plans, there was a gap of three years,

⁴ Padhy, K.S and Behera, A.K, “*Industrial Policy of India*”; Discovery Publishing House; Delhi; 1988, p. 136.

which left a strong decelerating effect on industrial development. During this time, the country was recovering from a period of recession and there was considerable underutilized capacity in the industrial sector, particularly in the capital goods and engineering industries. The main emphasis in the *Fourth Five Year Plan* was therefore, on reversing the trend in the earlier years and on accelerating future growth. The programmes of development in the *Fifth Plan* were formulated keeping in view twin objectives of self reliance and growth with social justice. The *Sixth Plan* said that, "Industrial development plays a crucial role in our developmental strategy, particularly with regard to the objectives of structural diversification, modernization and self- reliance". It reviewed the industrial development over the thirty years of planning and noted that industrial production had shown a five fold increase during this period. For the public sector to generate enough resources emphasis was given to optimum utilization of existing capacities, enhancement of manufacturing capacity, improvement in energy efficiency etc. Improving productivity and growth with social justice were the basic principles of the *Seventh Five Year Plan*. The policies and programmes for the industrial sector envisaged in this plan intended to provide a framework in which the joint efforts of private and public sectors, of workers and management would enable the Indian industry to surmount its difficulties and make significant progress on the road to modernization. According to the *Eighth Plan*, "the desired growth of different sectors will be achieved primarily through modifications in industrial, trade, fiscal policies and changes in duties and taxes rather than through quantitative restrictions

on imports or exports or the licensing mechanism". During this plan, the public sector was to concentrate on core and basic sectors and the private sector was supposed to play an increasing role in industrial activities especially where security or strategic or social considerations were not very important.

It can be seen, therefore, that behind the planned extension of public sector, there was an economic consideration of speeding up growth and at the same time guiding the private sector in the same direction.

Objectives of Public Sector Enterprises

For the under-developed country like India, the objectives to be achieved and the purposes to be served were many. Jawaharlal Nehru observed, "Whatever it may be in other countries, in under-developed countries like ours, which have to develop fairly rapidly, the time element is important and the question is how to use our resources to the best advantage. If our resources are abundant it will not matter how they are used. They will go into a common pool of development. But where one's resources are limited, one has to see that they are directed to the right purpose so as to help build up whatever one is aiming at."⁵ For this reason public enterprises were seen as a means of social as well as economic development. They were projected as not as profit making organization but as a force which would achieve certain important national objectives such as faster industrial and economic growth,

⁵ Yojana, "Jawaharlal Nehru on Nation Building"; 15th August 1980, p. 7.

reduction of disparities in income, preventing monopolies, generating employment, balanced regional development, encouraging small and cottage industries etc.

The objectives of public sector can be listed as follows⁶:

- To accelerate the pace of economic growth
- To develop those priority sectors which are ignored by the private sector
- To prevent concentration of economic power
- To gain control over the “commanding heights” of the economy
- To achieve self- sufficiency in strategic sectors and to diversify the economy
- To act as countervailing force and put up an effective competition to the private sector
- To promote the development of backward areas and reduce the inter- regional economic imbalances
- To effect equitable distribution of income through social overhead capital, adopting proper employment policy and other measures, and
- To generate surplus to finance future development programmes

Thus, we see that public enterprises have a number of objectives to fulfill. This multiplicity of objectives has created difficulties in reconciling the social demands and the demands of profit maximization. Similarly, there has been no

⁶ Cherunilam Francis, “*Industrial Economics- Indian Perspective*”; Himalaya Publishing House; Bombay; 1989; p. 386.

effort to see that disparate objectives are so organized that the general public as well as those who are working for public enterprises have clarity of understanding as to what does a particular enterprise stand for and what is expected of it.⁷

To set the objectives on paper and working out on them is what differentiates between theory and practical applicability. The term 'enterprise' is defined as an economic organization guided absolutely by a profit motive.⁸ But the fact is that the emphasis of public enterprises has been on a variety of considerations having no hint of commercial strategies and motives that generally guide entrepreneurship. The performance of public enterprises has been under scrutiny for a long time. However the criteria of judgment have neither put public enterprises in the category of the private enterprises nor as completely as an instrument for social development.

But, before judging the performance of the public enterprises it becomes important to look at their organization and structure because public sector enterprises can make profits only when they are managed efficiently. The success of any enterprise whether in private or in public sector, depends upon two things⁹:

- organization and structure of the enterprise, and
- quality of its personnel

⁷ Chaturvedi , T.N, " *Public Enterprises*"; IIPA; New Delhi; 1984; Preface V.

⁸ Luther, M. M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p. 31.

⁹ Shah, M.G , " *Management of Public Undertakings in India*", in T.N Chaturvedi (ed.) " *Public Enterprises*"; I.I.P.A; New Delhi; 1984; p.77.

Organization and Structure of the Enterprise

The organization and structure of the enterprise should be conducive to its efficient management and the quality of its personnel should be the best available. Both these things are necessary because a badly designed organization presents obstacles to high performance, inspite of hard working and able managers. On the other hand, even if the organization and the structure is excellent, it cannot be run efficiently if the quality of management is not of required standard. Therefore, the problems of the public sector enterprise must be examined with respect to these two areas.

Forms of Organization

The establishment of public enterprises was followed by a long debate over the forms of organization prescribed for them. There was no second opinion about the fact that public enterprises have a special need for flexibility of organization and management. Any other government organization could work with the help of familiar, unimaginative, slow moving routines¹⁰. But an enterprise could not function in this way. The need was to coordinate economy and flexibility with parliamentary control so that these enterprises could be managed efficiently and the results would be compatible and consistent with the ultimate social objectives. A.H Hanson cites two basic requirements for the efficiency of public enterprises:¹¹

¹⁰ Hanson, A.H, "*Managerial Problems in Public Enterprise*"; Asia Publishing House; New Delhi; 1962; p.15.

¹¹ *ibid*, p.16.

First, a competent and responsible management, free to run an enterprise within the limits laid down by the constitution, legislation and government policy decisions;

Second, the enterprise should possess personnel and financial systems which are sufficiently similar to those prevailing in the best organized private enterprises.

As cited by R.C Aggarwal,¹² the main types of organization employed for organizing public enterprises are as follows:

- Departmental Management
- Public trusts
- Public corporation
- Joint stock limited company
- Mixed ownership company

About the organizational forms, A.H Hanson opines that “It does not matter very much whether that framework is called a Government department, a public corporation or a state company. The vital thing is that it should be well designed. It should then leave the manager to get on with the job with minimum interference i.e. interference only at certain strategic points.”¹³

This forms the core of whole issue. Since the public enterprises began functioning they have been judged from time to time and to their dismay the reports have not been positive most of the time. To quote a critic, “The enterprises are

¹² Aggarwal, R.C, “*State Enterprise in India*”; Chaitanya Publishing House; Allahabad; 1961;pp. 147-165.

¹³ Hanson, A.H, “*Managerial Problems in Public Enterprise*”; Asia Publishing House; New Delhi; 1962; p.30.

continuously open to political and bureaucratic interference – both formal and informal and conflicting social and commercial objectives have been placed on them to the detriment of both.”¹⁴ The issues which need to be looked into are:

1. Relationship between the Government and Public enterprises

Usually public sector refers to all activities funded out of the government’s budget. Departmental enterprises form part of the government financial systems but have separate accounts of income and expenditure. Their surplus or deficit is merged in the accounts of the departments of the government, for e.g. the telecommunications, the postal department etc. Non-departmental enterprises refer to activities that are carried out by entities which are legally separated from the government and are made to maintain a separate account of all their financial transactions and set them out in the form of profit and loss account¹⁵. Though owned by Government, public enterprises are of industrial and commercial nature. Being treated as a Government Department, they are subject to the same rules and regulations as applied to any other Government Department with regard to account, audit, staff etc.

These peculiar features have resulted in the following drawbacks and weaknesses.

¹⁴ Raghavulu, C.V, “*Privatization and Public enterprises in India: Issues of Policy and Implementation*”; Indian Journal of Public Administration, Quarterly Journal of Indian Institute of Public Administration; Vol. 42, 1996; p. 477

¹⁵ Mathur, Kuldeep, “*Privatisation as Reform Liberalization and Public Sector Enterprises in India.*”

There is lack of initiative and flexibility so essentially needed in industrial and commercial enterprises. There is unusual delay in arriving at a decision as so many officials at various levels have to be approached who are reluctant to take a decision, their area of authority not being defined; while in so many matters, particularly finance, various ministries have to be consulted and approval obtained. The usual government procedure is not at all conducive to speedy action.

In particular, the departmental organization suffers from a very serious defect that it is usually extended to monopoly fields only, or the activities undertaken soon turn into a state monopoly. When there is a monopoly, consumers' interest is hardly protected, and it is bound to be neglected.

Quality of Personnel

Board of directors

The Board is appointed by the government, i.e., either the central or the State or by both. Generally, the practice is to appoint such a board for a term of three to five years. In the private sector the membership of the board remains more or less unchanged; though there is a provision for retirement of a certain proportion of directors at certain intervals but they are eligible for re-election. But this is mostly not so in the public sector because of the short term for which the board of directors is constituted. Again, because of its short term the board is not generally able to

devote much attention to evolving basic policies on a long term basis. It would generally be interested in short term solutions by way of expediency.¹⁶

The Board also consists of Non-officials. They are largely on the part-time basis. They are mostly politicians. Generally they don't have required outlook for managing an industrial or commercial undertaking efficiently. This gap is a great handicap in the public sector against implementation of new ideas and modern methods of management.

Managing Director

Similar are the difficulties with respect to top executive. The managing directors or the general managers are normally appointed from the outside of the enterprise. The main problem here is that they are appointed in public enterprises only for a short period. They may be withdrawn at the will of the appropriate government. In majority of the cases, by the time they know the problems, get acquainted with modern management techniques and begin to implement the same, they are transferred to other jobs. The continuity is lost. The board of management also changes periodically. The frequent transfers of the managing director or the general manager further aggravate the situation.

¹⁶ Shah, M.G, " *Management of Public Undertakings in India*", in T.N Chaturvedi (ed.) " *Public Enterprises*"; I.I.P.A; New Delhi; 1984; p.78.

2. Professionalism in Management

While initiating debate on Second Five Year Plan on 23rd May, 1956 Jawaharlal Nehru said: “ I have no doubt that the normal governmental procedures applied to a public enterprise of this kind will lead to the failure of that public enterprise. Therefore, we have to evolve a system for working public enterprises where, on the one hand, there are adequate checks and protection and on the other, enough freedom for them to work quickly and without delay.” This vision led to the adoption of different kinds of organization structures and their relationship with the government as stated above. In the beginning, the difference among the enterprises was seen only in terms of ownership and so it was argued that any professional manager could manage them. This allowed for movement of managers from private to public sector¹⁷. Since public enterprises were seen as expanding domain of civil services, civil servants began to seek managerial positions in the public sector enterprises. Very soon, Public sector enterprises and their relationship with government were so structured that the superior generalist civil service had considerable say in actual decision making¹⁸. The result was that public enterprises came to be headed by the people whose incentives did not lie in the specific organization that they worked in but in the larger civil service system.

¹⁷ Mathur, Kuldeep, “ *Privatisation as Reform Liberalization and Public Sector Enterprises in India*”.

¹⁸ Mathur, Kuldeep, “*Bureaucracy in India: Development and Pursuit of Self Interest*”; Indian Journal of Public Administration; volume 37; 1991; p.645.

In any private enterprise the incentives and motivations are absolutely profit oriented. So what follows is a bunch of highly motivated managers as well as workers. The better you perform, the better you deserve. Promotions and appointments can be done out of the way. Whereas in Public enterprises, there is no immediate reward for good work and no insecurity of losing job. So a sense of complacency sets in affecting the quality of work. In order to explain this attitude, Di Maggio and Powell have put forward a theory of '*institutional isomorphism*' which refers to the development of institutional similarities¹⁹. Isomorphism is defined as "as a constraining process that forces one unit of population to resemble other units that face the same set of environmental conditions". They argue that professionalization and bureaucratization are not necessarily the product of strategic plans for more rational organizations, but may reflect, or be caused by dependency or closeness to other organizations. They suggest that a general mechanism is at work: 'The greater the dependence of an organization on another organization, the more similar it will become to that organization in structure, climate and behavioral focus.' Thus, public enterprises began to acquire the characteristics of administrative departments that they were linked to and lost the special character for which they were established. The incentive system like in bureaucracy was not related to performance but ability to fulfill obligations of hierarchy and the command and control system.

¹⁹ DiMaggio, Paul J. and Powell, Walter W, " *The Iron Cage revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields*"; American Sociological Review; volume 48; April 1983; pp.147-160.

3. Autonomy and Accountability

Public accountability comprises the control of the state enterprises directly by the parliament and indirectly through the ministers concerned and also making the management responsible and answerable to the minister and through him to Parliament²⁰. The need for such a control and making the management responsible to Parliament responsible representing the shareholders- tax payers and consumers- is seriously felt by everyone concerned with the problems of State enterprises. Autonomy and freedom of action, on the other hand, are key to high performance. Over the years a very comprehensive and complex system of relationship between the government and the public enterprises has emerged. The government as owner and an agency accountable to the parliament has tended to administer, control and monitor the performance of public enterprises very closely. Departmental enterprises were already under government control, with time the joint stock companies and corporations also came to be controlled through administrative ministries where the civil servants and not the managers of the enterprises became the decision makers²¹.

Issues of autonomy and accountability have dominated the discussion about reforming the public sector. It is said that while public enterprises have not been granted effective autonomy, the manner of accountability imposed on them by

²⁰ Agarwal, R.C., "*State Enterprise in India*"; Chaitanya Publishing House; Allahabad; 1961; p. 216.

²¹ Mathur, Kuldeep, "*Privatisation as Reform Liberalization and Public Sector Enterprises in India*".

ministries is oppressive their managements spend considerable time and energy in trying to satisfy almost insatiable desire of ministry of officials for data and information at the cost of their main business of running their undertakings efficiently and profitably

In any democratic administration no segment of public life can be free from accountability. Autonomy has to be earned through performance and with a continuing awareness of accountability. Therefore, what was required since the beginning was an objective and dispassionate approach to the genesis and the difficulties of the public sector with a view to improving their performance and to ensure that they are able to perform the role as assigned to them.

Apart from the above issues, the issues of overstaffing, low productivity, almost redundant technology, no facilities for systematic market research and proper sales forecasting, very high capital outlay on township and welfare activities, large overhead expenditure, over capitalization (surplus machine capacity), long gestation period and capital intensive character are held responsible for poor performance of public enterprises.

Performance of Public Sector Enterprises

Growth of Investment

In the beginning of the first Five Year Plan there were only five public enterprises with an investment of Rs. 29 crores. In the fifties the number rose to 21 and investment rose to 81 crores. At the end of Eighth Five Year Plan the number

was 242 with an investment of Rs. 213610. The reason of this expansion could be attributed to the spread of public sector in all sectors of economy.

Table 1

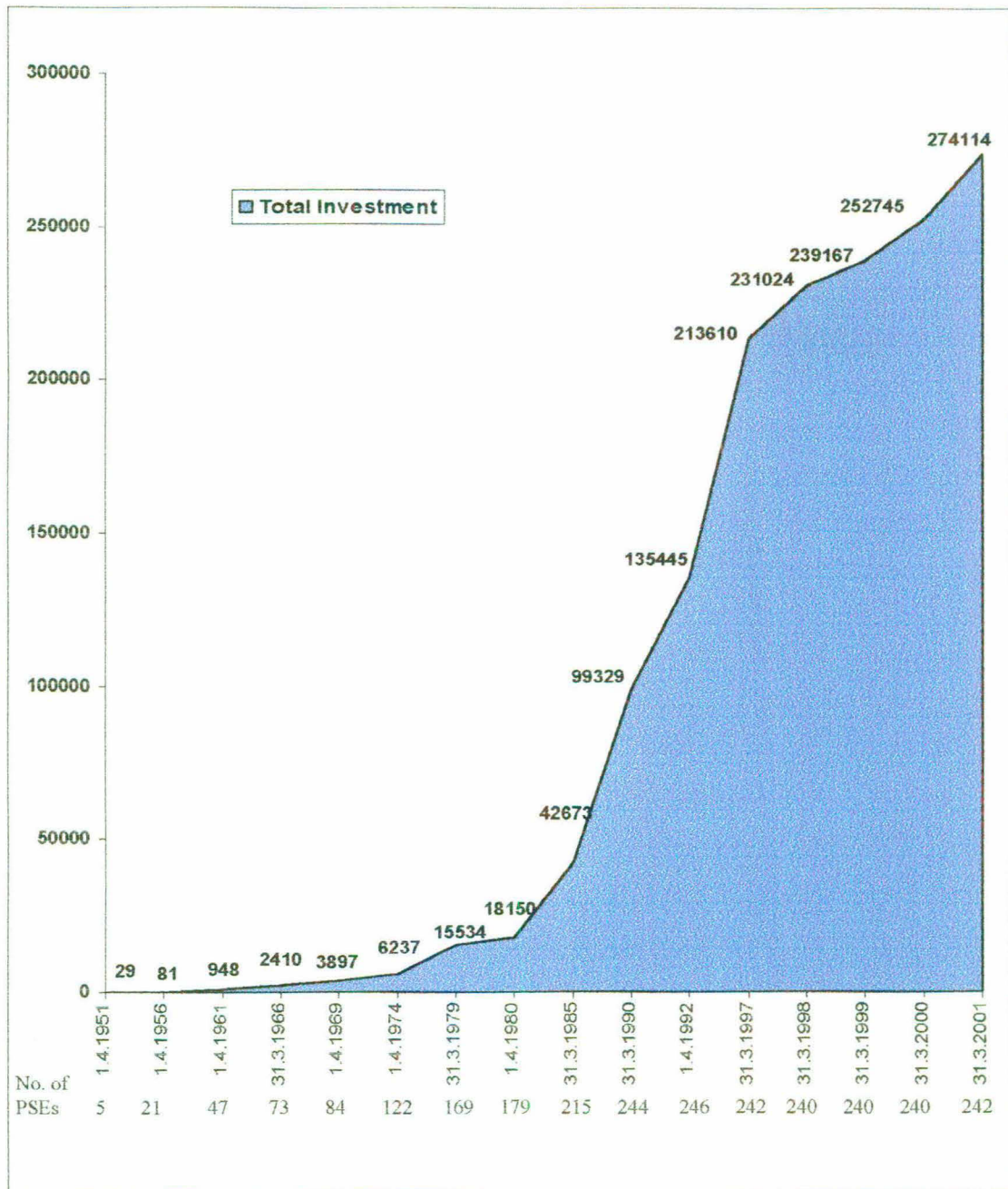
Particulars	Total Investment (Rs. in crores)	Enterprises (Number)
At the commencement of the 1 st Five Year Plan (1.4.1951)	29	5
At the commencement of the 2 nd Five Year Plan (1.4.1956)	81	21
At the commencement of the 3 rd Five Year Plan (1.4.1961)	948	47
At the end of 3 rd Five Year Plan (31.3.1966)	2410	73
At the commencement of the 4 th Five Year Plan (1.4.1969)	3897	84
At the commencement of the 5 th Five Year Plan (1.4.1974)	6237	122
At the end of 5 th Five Year Plan (31.3.1979)	15534	169
At the commencement of the 6 th Five Year Plan (1.4.1980)	18150	179
At the commencement of the 7 th Five Year Plan (1.4.1985)	42673	213
At the end of 7 th Five Year Plan (31.3.1990)	99329	244
At the commencement of the 8 th Five Year Plan (1.4.1991)	135445	246
At the end of 8 th Five Year Plan (31.3.1997)	213610	242
As on 31.3.1998	231024	240
As on 31.3.1999	239167	240
As on 31.3.2000	252745	240
As on 31.3.2001	274114	242

Source: Public Enterprises Survey, 2000-2001.

FIGURE – 1

GROWTH OF INVESTMENT

(RS. IN CRORES)



Economy

The period from 1951 to the mid 1960s was devoted to accelerating industrial growth. The indices of industrial growth rose from an annual rate of about 5% from the Second World War to 7% in the decade of the 1950s, to 9% during the first five years of the 1960s. After 1965 there was an apparent deceleration of the rate of growth of industrial output²². One foreign observer, writing in 1980, described India as “ a country with a wide spread of modern industries making everything from nuclear reactors to textile machinery, from machine tools to petrochemical plant.”(India’s Emergence as an Industrial Power; New Delhi; 1982)

A comprehensive survey of India’s Industrial experience since the early 1950s, that of Isher Ahluwalia²³, estimated that the annual rate of growth of net value added from industry fell from an average of 7.1 % in the 1956-57—1965-66 period to 5.4 % from 1966-67—1981-82. The deceleration was concentrated in the two sectors—basic and capital goods—that had become so important since 1950 and in which the growth rates had been especially rapid until the mid-1960s. The intermediate and consumer goods sectors showed a roughly constant, but overall low rate of growth during the entire period. Significantly the growth rate of consumer durables (less than 5% of industrial value added) did not decline and remained high at the rate of 10% per year. Apart from this evidence of a declining rate of growth of manufacturing output, other research indicates a steady rise in

²² Rosen, George, “*Industrial change in India, 1970-2000*”; Allied Publishers; New Delhi; 1988; p. 5.

²³ Ibid, p. 5.

capital/output ratios and evidence of reduced efficiency in the overall factor productivity for the manufacturing sector since the mid-1960s. It has been recognized that much of India's Industrial output is relatively high cost whether measured in price or quality terms, compared to costs of possible competitive imports or in competitive export markets, at the same time that India's range of industrial output and exports has been increasing.

One of the official reviews of the scenario with respect to industry is contained in the Government of India's Economic survey for 1984-85 where the discussion of India's industrial production ends with the words: "[Our] industrial performance has been unsatisfactory and a large area of industrial sectors has been facing chronic structural problems... [Such]...disappointing performance ... is not limited to the sixth plan period [1980-85]. It was also a feature of the preceding fifteen years...[if] the economy is to enjoy sustained growth of annual rates at 5% or higher, then the long term growth of industry must accelerate to 8 or 9% a year... the efficiency of the industrial enterprise will have to improve markedly. The framework of industrial policy may also require changes, but such reforms will only yield expected results if industry responds with dynamism and responsibility."²⁴

Attempts Towards Revival of Public Sector Enterprises

Public Sector emerged essentially to fulfill two responsibilities. Firstly, it aimed at beginning industrialization in those areas where the private sector would

²⁴ *Economic survey(1984-85) ; Government Of India, New delhi,1985; pp 33-34.*

not invest. Secondly, it also attempted to fulfill the objective of a socialistic pattern of society. In both the cases its performance cannot be written off, however, it could not reach the commanding heights envisioned in the beginning.

Over the past several years, a number of attempts have been made to reform and restructure the public sector undertakings. The attempts have been in the form of recommendations of various committees and industrial policies. The next chapter maps and analyses the policies that have been announced with regard to public enterprises.

CHAPTER III

INDUSTRIAL POLICY RESOLUTIONS 1948–91: SHIFTS AND CONTINUITIES

India's industrial system consists of policies, plans and regulations. Policies broadly lay down the objectives and their rationale, and the strategy to achieve these objectives. The plans outlay the targets of expenditure and physical achievements for major groups of activity in the private as well as public sector. On the basis of the general approach laid down in the policy framework and within the objective of and strategy of each plan its execution is sought through the existing system of industrial regulation which can be modified from time to time.

MAJOR OBJECTIVES

At a more general level, the objective may be subsumed as growth with equity or social justice objective. The Industrial Policy Resolutions, statements, and plans list a number of objectives of which the following are major ones:¹

- According to the rate of industrial growth with specific emphasis on diversification of industrial production, a faster expansion of the basic and key goods industry and of the public sector relative to other industry and private sector.
- Protection and promotion of the small industry.

¹ Sandesara, J.C., "*Industrial Policy and Planning, 1947-91 Tendencies, Interpretations and Issues*"; Sage Publication; New Delhi; 1992; p.13.

- Reduction in disparities in the distribution of industrial activity among different regions in the country.
- Prevention of the concentration of economic power in private hands.

Industrial Policy Resolutions

With a view to make Public Enterprises more effective and efficient, several policies of the government have come up starting from First Industrial Policy Resolution of 1948 to the New Economic Policy of 1991. In 1948, immediately after independence, the government introduced the Industrial Policy Resolution. This outlined approach to industrial growth and development. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from the time to time, it was modified through statements in 1973, 1977, 1980 and 1991.

Industrial Policy Resolution, 1948

Immediately after the attainment of Independence the Government announced its policy towards industrialization on 6th April 1948 in the Industrial Policy Resolution.

All the ingredients of the Directive Principles are contained in and are emphasized by the Industrial Policy Statement, 1948.² Regarding the part which is concerned with private enterprise vis-à-vis state participation in the industrial field it may be noted, *firstly*, that the resolution takes as its starting point the nation's

² Handbook of Industrial Policy and Statistics 2001; Office of Economic Advisor, Ministry of Commerce and Industry Government of India; New Delhi; p.1.

resolve “to establish a social order where justice and equality of opportunity shall be assured to all people”.

Secondly, it lays down that all efforts should be directed at securing an appreciable rise in the standard of living within the shortest possible time. To quote the resolution: “The immediate objective is to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution.... the emphasis should be on the expansion of production, and in particular, on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities, the exports of which will mean earnings of foreign exchange”.

Thirdly, the resolution emphasized the important role of cottage and small-scale industries in the national economy “offering as they do scope for individual village or co-operative enterprise and means for the rehabilitation of displaced persons” and the desirability of decentralizing larger industries, wherever possible.

Fourthly, it enunciates a policy of social justice and fair labour conditions as an essential basis for harmonious relations between management and labour. It says, “The Government..... recognize that their objective viz. securing the maximum increase in production, will not be realized merely by prescribing the respective spheres of the state and of private enterprise in industry; it is equally essential to

ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them”.

Lastly, the resolution contemplates a mixed economy in which there is a sphere reserved for private enterprise and the other for public ownership.

Under the 1948 Resolution the Government of India for the first time officially accepted the principle of mixed economy as the basis of economic development of the country. State participation in the industrial field had only to be gradual. The Resolution lays down: “There can be no doubt that the state must play a progressively active role in the development of industries, but ability to achieve that main objective-increase in national wealth-should determine the immediate extent of State responsibility and the limits to private enterprise”. The Government of India, it was stated, feel that “for some time to come, the State could 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 on acquiring and running existing units. Meanwhile private enterprise, properly directed and regulated, has a valuable role to play”.

Thus, industries were divided into four broad categories.

- (i) In the first category were placed the manufacture of arms and ammunitions, the ownership and management of railway transport, and the production and control of atomic energy which were made the “exclusive monopoly of the Central Government”. Further, in any emergency the government would have the power to take over any industry vital for national defense.

- (ii) The second category covered coal; iron and steel; aircraft manufacture; shipbuilding; manufacture of telephone, telegraph oils. In the case of these six industries the State (Central and State Governments and other public authorities like municipal corporations) “will be exclusively responsible for the establishment of new undertakings”, while in the case of existing unite the matter would be re-examined at the end of ten years and they would be nationalized if necessary. Management of state enterprise was, as a rule, to be through the medium of public corporations under the statutory control of the Central Government.

It may be noted that the six industries included in this category were basic or key industries. The responsibility of their rapid progress in an underdeveloped country must naturally devolve on the State.³

- (iii) The third category covered a list of 18 industries which were subjected to Central regulation and control in as much as “their locations must be governed by economic factors of all-India importance” or “they required considerable investment and a high degree of technical skill”..
- (iv) The fourth category covered the rest of the industrial field. “The rest of the industrial field”, according to the resolution, “will normally be open to private enterprise, individual as well co-operative. The State will also progressively participate in this field, nor will it hesitate to intervene

³ Agarwal, R.C “*State Enterprise in India*”; Chaitanya Publishing House; Allahabad;1961;p.93.

whenever the progress of an industry under private enterprise was unsatisfactory”.

So as we see that the First Industrial Policy Resolution that of 1948 established the participative, promotional, regulatory and planning roles of the state in the industrialization of the country. Along with that it envisaged a mixed economy. However, a clause of the policy contained the threat of nationalization of the important industries after a certain period. In the words of the Resolution, “While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertaking in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period the whole matter will be observed and compensation will be awarded on a fair and equitable basis”. This clause became a major part of debate in the years to come.

Industrial Policy Resolution, 1956

Eight years since the declaration of first Industrial Policy, India witnessed many important changes and developments. The Constitution of India had been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. The first five year plan had been completed. Parliament had accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitated a fresh statement of Industrial Policy. To quote the Resolution, “Parliament accepted in December, 1954, the

socialist pattern of society as the objective of social and economic policy. Industrial Policy, as other policies, must therefore, be governed by these principles and directions.”

The Industrial Policy Resolution of 1956⁴ widened the scope of public sector and reiterated the socialist pattern to be followed. It is stated that, “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. At the same time, as an agency for planned national development, in the context of country’s expanding economy, the private sector will have the opportunity to develop and expand. The principle of cooperation should be applied whenever possible and a steadily increasing proportion of the activities of the private sector developed along cooperative lines.”

However, this decision did not in any way stand in the growth and development of the private sector. It was assigned that the private sector also had an important role to play in nation’s economy. The principle of mixed economy accepted by the 1948 Resolution was carried forward. The role of public sector was made clearer, “The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, requires that all industries of basic strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require

⁴ Handbook of Industrial Policy and Statistics 2001; Office of Economic Advisor, Ministry of Commerce and Industry’ Government of India; New Delhi; p. 1.

investment on a scale which only the state, in present circumstances, could provide, have also to be in the public sector.” The 1956 Resolution has been described by some observers as an “economic constitution” based upon its political counterpart – the Constitution of India, regarding its relevance in the years to come.

The Resolution classified industries into three categories defining the role which the state would play in each of them, “After considering all aspects of the problem in consultation with the Planning commission, the Government of India have decided to classify industries into three categories.”

1. The first category listed those industries “the future development of which will be the exclusive responsibility of the State.” Industries in this category were listed in Schedule A of the Resolution which originally contained 17 industries including railways and air transport, arms and ammunition and atomic energy, to be developed as Central Government Monopolies.
2. The second category included those industries “which will be progressively state-owned and in which the state will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the efforts of the state.” Industries included in this category were listed in Schedule B of the Resolution which originally contained 12 industries.
3. The third category included all the remaining industries and stated that “their future development will, in general, be left to the initiative and enterprise of the private sector.....It will be the policy of the State to facilitate and encourage the

development of these industries in the private sector, in accordance with the programmes formulated in successive five year plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organized on cooperative lines for industrial and agricultural purposes. In suitable cases, the state may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital.”

The Government, through the Policy Resolution, emphasized the need for infrastructural facilities for industrial development in the backward regions and reiterated its determination to provide every possible assistance to the small scale and cottage industries “The Government of India would, in this context, stress the role of cottage and village and small-scale industries in the development of the national economy.”

Comparison of 1948 and 1956 Resolutions : Shifts and continuities

- Both the Resolutions asserted their belief in the virtues of mixed economy along with government’s dominant role in the industrial sector of the country.
- Unlike the 1948 Resolution, the 1956 Resolution assured that existing private enterprise and approved schemes to establish new industries will be permitted to develop along with state undertakings in all three

categories, except in those industries in which the state is allowed a monopoly right, subject to state regulation and control and provided they do not affect the national interest adversely.

- The Industrial Policy Resolution of 1956 removed the threat of nationalization contained in the Policy Resolution of 1948. Except in the field of public utilities and national resources, the policy abandoned the over-all nationalization clause.
- The 1948 Resolution made it very clear that the management of state enterprise would be as a rule is through the medium of public corporations under the statutory control of the Central Government. The 1956 Resolution is silent on the organizational structure of the public enterprises except for suggesting that, “wherever possible there should be decentralization of authority and their management should be along business lines.” Suggestion of increasing autonomy and reducing bureaucratic interference was recommended by the Appleby Report as early as in 1956. However, no such implementation came about in the policies announced later.

Industrial Policy Statement, 1973

The Industrial Policy Statement of 1973⁵, identified high-priority industries where investment from large industrial houses and foreign companies would be

⁵ *ibid.*, p.6.

permitted. It also stated that, "Cooperatives, small and medium entrepreneurs would also be encouraged to participate in the production of mass consumption goods."

Industrial Policy Statement, 1977

In 1977, Janata Party assumed power at the centre and in December 1977⁶, announced its Policy Statement. The main thrust of the policy was on effective promotion of cottage and small industries. It was decided that "whatever can be produced by small and cottage industries must only be so produced". The list of industries exclusively reserved for small scale sector was expanded from 180 items to more than 500 items. It provided for an annual review of this list in view of new products and new processes of manufacture that emerge.

Within the small sector, a tiny sector was also defined with investment in machinery and equipment up to Rs. 1 lakh. According to 1971 census figures, this tiny sector was situated in villages and also in towns with a population of less than 50,000. Special legislation to protect cottage and household industries was also proposed to be introduced.

The areas delineated for the large scale industry were:

- a) Basic industries that are essential for providing infrastructure and for the development for small and village industries, such as steel, non-ferrous metals, cement, oil refineries;
- b) Capital goods industries;

⁶ *ibid*, p.7.

- c) High technology industries that require large scale production and that are related to agricultural and small scale industrial development such as fertilizers, pesticides and petro-chemicals; and
- d) Other industries that are outside the list of reserved items for the small scale sector, such as machine tools, and organic and inorganic chemicals.

Comparison of Policies : Shifts and Continuities

- (i) It was noted in the 1977 Resolution that though some elements of the Industrial Policy Resolution of 1956 still remained valid, certain distortions had crept in the system. George Fernandes, the Minister for Industries, during that period, criticized the previous Industrial Policy, 1956 on the ground that it meant all things to all men and that it was too flexible and under it anything that the government wanted to do could be done⁷. The new policy was thus directed towards removing these distortions. It provided for a closer interaction between the agricultural and industrial sectors, accorded the highest priority to the generation and transmission of power and an exhaustive analysis of industrial products was made to identify products which are capable of being produced in the small sector.
- (ii) The emphasis of this policy was on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. So the list of

⁷ Padhy, K.S and Behera, A.K, "Industrial Policy of India"; Discovery Publishing House; Delhi; 1988, p. 121.

industries exclusively reserved for small scale sector was expanded from 180 to more than 500 items.

- (iii) As compared to previous policies, policy statement of 1977 was silent on how production and investment in the industrial sector was to be brought in line with social objectives⁸.

Industrial Policy Statement, 1980

Industrial Policy Statement made by the Government on July 23, 1980,⁹ observes, "The industrial policy announcement of 1956 in fact reflects the value system of our country and has shown conclusively the merit of constructive flexibility. In terms of this resolution the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for the reasons of its greater reliability, for the very large investments required and the longer gestation periods for the crucial economic development projects. The 1956 Resolution, therefore, forms the basis of the Industrial Policy Resolution of 1980". The socio-economic objectives spelled out in this Resolution are:

- i. Optimum utilization of installed capacity;
- ii. Maximum production and achieving higher productivity;
- iii. Higher employment generation;
- iv. Correction of regional imbalances;

⁸ Editorial Comment, "Janata's Economic Policy"; Economic and Political Weekly, Vol. XII, No. 47; 19th November 1977; pp. 1916-1917

⁹ *Handbook of Industrial Policy and Statistics 2001*; Office of Economic Advisor, Ministry of Commerce and Industry' Government of India; New Delhi; p. 8.

- v. Strengthening of the agricultural base through agro based industries and promotion of optimum inter-sectoral relationship;
- vi. Promotion of export- oriented industries;
- vii. Promotion of economic federalism through equitable spread of investment and dispersal of returns; and
- viii. Consumer protection against high prices and bad quality.

Highlights of Industrial Policy Statement, 1980

Noting the erosion in people's faith in public sector, the 1980 policy announced to launch a drive to revive the efficiency of public sector undertakings through a time bound programme of corrective action on a unit by unit basis. It proposed to strengthen the management of public sector undertakings by developing the management cards of public sector undertakings in functional fields such as operations, finance, marketing and information system. In this exercise, priority was accorded to convert losing concerns into viable ones through broad restructuring of the system and by providing dynamic and competent management.

In continuity with the policy of 1977, this policy too encouraged the development of small scale industries.

It propounded the concept of economic federalism which would be promoted through the setting up of a few nucleus plants in identified industrially backward districts. The nucleus plant would concentrate on assembling the products of the ancillary units falling within its orbit, on producing inputs needed by a large number of smaller units and making adequate marketing arrangements. It would

also work for upgrading the technology of small units. The Government would promote the development of a system of linkages between nucleus large plants and satellite ancillaries.

In any of the earlier policies the approach of government towards industrial sickness had not been referred to. In the policy statement of 1980 there was a proposal of devising an early warning system to identify incipient sickness.

Noticing the lack of modern technology being an impediment to the growth of public enterprises, the policy announced to give them advantage of modern technology and economies of scale. Along with that, it was decided that technology would be transferred from efficiently operating units to new units. It has also been stated that the Indian industry must earmark substantial resources for R&D to constantly update technologies with a view to optimize utilization of scarce resources, better services to the consumer and achieve greater exports. 'Modernization packages' would also be evolved to suit the requirements of each industry.

Comparison of Policies: Shifts and Continuities

1. The continuity which one notices in the 1980 Policy is the role of Public Sector Enterprises originally envisioned by the Policies of 1948 and 1956, to play a dominant role in the economy.
2. Unlike the earlier policies, this policy accepted the poor performance of Public enterprises and proposed many improvements such as modernization of technology transfer of technology, promotion of R&D, streamlining of licensing procedures etc

Apart from the policy recommendations, several committees were also set up to review the performance of public enterprises. Suggestions of these committees varied from the administrative independence of organization to reduction of bureaucratic interference to providing a clear statement on objectives for the public enterprises. The intention was better performance from public sector.

Recommendations of various Committees for Public Sector Enterprises

- The Report on “Efficient Conduct of State Enterprises” prepared by A.D Gorwala in 1951¹⁰. The report stated that “the kernel of the problem is provision of safeguarding the national interest without encroaching upon the administrative independence of the organization and usurping their managerial responsibility. The essentials of such an arrangement are that while it is established by the government and remains within the operative sphere of the machinery of the state, it retains a large degree of autonomy”. The report highlighted the need for autonomy for efficient functioning of public enterprises in considerable detail.
- Appleby Report, 1956¹¹. The Report recommended an increase in the autonomy of the public sector and reduction of bureaucratic interference in their functioning.
- The Administrative Reforms Commission, 1967¹² recommended that the government should make a comprehensive and clear statement on the objectives and obligations of the public sector.

¹⁰Luther, M. M, “*Public Sector Reforms Myths and Realities*”; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p. 50

¹¹ Mathur ,Kuldeep, “ Privatisation as Reform Liberalization and Public Sector Enterprises in India”.

¹² Ibid,

- Economic Administration Reforms Commission under the chairmanship of L.K Jha in 1981¹³ recommended enhancement in freedom to function and a more efficient economic administration.
- The Arjun Sengupta Committee in 1984¹⁴ analyzed the performance of public enterprises and recommended inter alia , performance contracts, adoption of the holding company concept and capital restructuring of cash loss Public Sector Enterprises to improve their functioning.
- Economic Advisory Council, 1987 under the chairmanship of Sukhmoy Chakravarty¹⁵ recognized the need to differentiate between the nature of different styles and practices of Government intervention as well as the levels at which it is undertaken. It felt that Public Sector Enterprises particularly those operating in a competitive environment required greater autonomy before their performance could be assessed on the same lines as of those in private sector.

Inspite of these recommendations the performance of public enterprises kept on deteriorating with time. What could have been the reasons for it? Scholars have given various reasons for the deteriorating performance of the public sector enterprises. Francis Cherunilam¹⁶ doubts whether these proposals would be given a practical shape or not. The improper and inefficient implementation of the policies

¹³ Luther, M. M "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p. 51.

¹⁴ *ibid*, p. 51.

¹⁵ *ibid*, pgs51.

¹⁶ Cherunilam, Francis, "*Industrial Economics- Indian Perspective*"; Himalaya Publishing House; Bombay; 1989; p. 43.

has contributed more than the defects of the policies to the poor performance of the economy.

M.M Luther¹⁷ opines that the spirit behind industrial policies of fifties and attempts for providing requisite framework for efficient working of PSEs continued to get diluted and implementation of policy initiatives recommended by committees set up in eighties remained only superficial. No attempt was made by the government to formulate a comprehensive policy framework for reforming public sector enterprises.

T.N Chaturvedi¹⁸ observes that in the beginning, there were no comprehensive policy guidelines regarding the role and place of public sector in India. In addition to this disadvantage, the evolution of policy for the public sector has not always been able to take note of the changing requirements of the economy and aspirations of the enterprises.

K.S Ramachandran¹⁹ is of the view that a little correction here, a little revamping there is not going to help. The public sector essentially must be corporatized, not only in its structure but also in its approach and attitude. The political leadership and administrative machinery must respond in two ways, one by the act of corporatization, and the other by keeping themselves totally out of public sector policy making and operations. Policy makers must essentially forget all about

¹⁷Luther, M. M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p. 52.

¹⁸ Chaturvedi, T.N, "*Public Enterprises*"; IIPA; New Delhi; 1984; Preface V

¹⁹ Ramachandran, K.S, "*Reform the Unfolding Story*"; Konark Publishers; Delhi; 1996; p.86.

the commanding heights of the past and settle down to business of putting the other PSUs in a position where they can perform.

Kuldeep Mathur²⁰ observes that there is no dearth of policy recommendations for making government more effective and efficient and most of them were made even before downsizing was the order of the day. It is just that these recommendations rarely get implemented or when implemented fail to get institutionalized

New Economic Policy and Public Sector Enterprises

With the widening of fiscal deficits, inflationary pressures and aggravation of balance of payments' position, the Indian economic situation became quite fragile. Fragility of the economic situation became a stark reality when India faced one of the most serious foreign exchange crises as a consequence of Gulf War due to loss of remittances and exports earnings from countries in the region and increase in fuel import bill²¹.

Two IMF loans had been drawn by the end of fiscal year 1990-91, still the level of foreign exchange reserves remained very low. Frequent changes in the government delayed corrections of internal and external imbalances. Postponement of budget in February 1991 further delayed corrective measures, thereby shaking the confidence in world capital markets about India's creditworthiness and its political will to discharge debt obligations. The scenario of acute balance of

²⁰Mathur, Kuldeep, "Privatisation as Reform Liberalization and Public Sector Enterprises in India".

²¹ Luther, M. M., "Public Sector Reforms Myths and Realities"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p.53.

payments crisis, stagnating production, soaring inflation and attitude of certain vocal and influential sections of labor demanding increased wages, with little or no concern for productivity, was dismal. Options before the then government were limited. It had to take recourse to assistance of IMF or World Bank and accept conditions imposed by them. A stiff agenda of economic liberalization was specified which included reduction of fiscal deficit, steps towards full convertibility of the rupee, removal of controls on imports and production, delimiting areas of operation reserved for public sector and reforming the working of public sector units with a view to make them viable in a competitive regime.

Industrial Policy Resolution, 1991

In the Industrial Policy of July 24, 1991²² the Government announced that their “policy will be continuity with change.” Regarding the public sector it was said, “The public sector has been central to our philosophy of development. In the pursuit of our development objectives, public ownership and control in critical sectors of the economy has played an important role in preventing the concentration of economic power, reducing regional disparities and ensuring that planned development serves the common good.” At the same time it noticed the problems that had manifested themselves in many of the public enterprises. Problems such as the insufficient growth in productivity, poor project management, over-manning, lack of continuous technological up gradation inadequate attention to R&D and

²² Handbook of Industrial Policy and Statistics 2001; Office of Economic Advisor, Ministry of Commerce and Industry' Government of India; New Delhi; p. 11-15.

human resource development, very low rate of return on the capital investment etc. It noted that the take over of the sick units from the private sector this category of the public sector accounts for almost one-third of the total losses of central public enterprises and another category of public enterprises, which did not fit into the original idea of the public sector being at the commanding heights of the economy, was the plethora of public enterprises in the consumer goods and services sector.

Thus, it was resolved that time had come for the government to adopt a new approach to public enterprises. The Resolution stated, "There must be a greater commitment to the support of public enterprises which are essential for the operation of the industrial economy. Measures must be taken to make these enterprises more growth oriented and technically dynamic. Units which may be faltering at present but are potentially viable must be restructured and given a new lease of life."

The priority areas for growth of public enterprises were demarcated. However, it was said that it will not be barred from entering into areas not reserved for it. The priority areas were:

- Essential infrastructure goods and services
- Exploration and exploitation of oil and mineral resources
- Technology development and building of manufacturing capabilities in areas which are crucial in the long term development of the economy and where private sector investment is inadequate.

- Manufacture of products where strategic considerations predominate such as defense equipment.

In respect of public sector as a whole, the policy options include dereservation of activities of public sector, corporatization, creating institutions which emphasize the commercial element, contracting out of services and withdrawal of discriminatory treatment between public and private sector. Liberalization has initiated a number of steps in this direction such as dismantling of monopolies by encouraging private sector participation, evolving an industry regulatory framework, minimization of budgetary support and adoption of a disinvestment policy for public enterprises.

In their effort to improve the performance of public enterprises several measures were taken. They are:²³

- Signing of MOUs with Public Enterprises.
- Periodic performance review by the administrative Ministries.
- Delegation of enhanced powers to Board of Directors particularly of Navratans and Miniratan Public Sector Enterprises.
- Professionalisation of Board of Directors.
- Disinvestment of shares of selected PSUs.
- Reference of sick industrial companies to the Board for Industrial & Financial Reconstruction (BIFR).
- Reduction of surplus manpower through voluntary retirement scheme (VRS).

²³ *Public Enterprises Survey 2000-2001*; Government of India, New Delhi; p. 124.

- Training and Human Resources Development.
- Diversification of product-mix.
- Technology up gradation, research & development.
- Better house keeping and improved maintenance management practices.
- Greater emphasis on energy conservation.
- Export promotion.
- Improved inventory control/ management.

Comparison of policies: shifts and continuities

If we compare the earlier policies of 1948, 1956, 1973, 1977 and 1980 with the New Economic Policy of 1991, it is nothing short than a volte-face from the earlier stand.

- i. In 1948 Resolution there was a threat of nationalization, in the policy of 1991 privatization is the catch word.
- ii. The socio- economic objectives of earlier policies are exchanged for the profit making objectives.

Privatization and After

The New Economic Policy of 1991 was a watershed in the history of public enterprises. The whole philosophy of socialist pattern of society and the policy framework which assigned public enterprises a dominant role in the economy of the country underwent a radical transformation. Rolling back of the state and greater

reliance on the free play of the market forces introduced public sector into the tough world of competition.

Considering public sector as a whole, the 1991 policy announced dereservation of activities of public sector, corporatization, creating institutions which emphasize the commercial element, contracting out of services and withdrawal of discriminatory treatment between private and public sectors²⁴. Reference of sick public enterprises to the Board for Industrial & Financial Reconstruction was aimed at reviving them and also pruning the public sector of chronically sick units. The journey from the threat of nationalization, in 1948 Resolution to the decision of privatization, in 1991 has thrown up a variety of themes in the study of the shifts and continuities in the public policies over the span of several years.

Several questions can be raised regarding the shifts and continuities in the policies. Is privatization the only answer? K.S Ramachandran is of the view that, "Policy makers must essentially forget all about the commanding heights of the past and settle down to business of putting the other PSUs in a position where they can perform. The task presently is daunting given the competition from the MNC's and the government's commitment to liberal and cheap imports. Nostalgia about the sixties should better be abandoned in favour of making it possible for the PSUs to survive the present strains and preparing for the future".

²⁴Luther, M. M, "*Public Sector Reforms Myths and Realities*"; Har-Anand Publications Pvt Ltd; New Delhi; 1998; p.74.

An enterprise literally means a business organization whose performance depends on its profitability. In the market only those enterprises survive which are the fittest. Ones which are not either close down or are sold off. There is no harm if the Government also takes this stand instead of burdening itself with loss making enterprises. As a matter of fact, Nehru himself declared while introducing the Second Plan in the Parliament, “ May I say here that while I am for the public sector growing, I do not understand or appreciate the condemnation of the private sector. The whole philosophy underlying this Plan is to take advantage of every possible way of growth and not to do something which suits some doctrinaire theory or imagine we have grown because we have satisfied some textbook maxim of hundred years ago”.

What would be the fate of socio-economic objectives set at the time of independence? As early as in 1967, the Administrative Reforms Commission had recommended that the statement on the objectives and obligations of the public sector should be made more comprehensive and clear. According to one analysis there are as many as 28 objectives for setting up public sector enterprises²⁵. These multiple objectives are quite often contradictory. For example, public sector claims to be the largest employer in the country. But the fact of the matter is that it is miserably suffering from the problem of overstaffing. In addition to that it is not an uncommon phenomenon for public enterprises to offer jobs as rewards or pacifiers to disgruntled members of the ruling elite²⁶. It is constantly reiterated in public discourse that public sector has a social function that of providing employment, and

²⁵ *ibid.* p.32.

²⁶ Mathur, Kuldeep, “ Privatisation as Reform Liberalization and Public Sector Enterprises in India”.

its performance can not be measured by profit alone²⁷. Even measuring of profit in public sector is a subject of debate and controversy. So the objectives and the role of public enterprises has to be redefined.

Was there any inherent defect in the policy objectives or was it the inefficiency of the political leadership to get down to business? The problem with the policy objectives was that it tried to accommodate as many roles for the public sector as it could. This created a conflicting situation where public sector was left directionless. As a result its performance was never up to the mark. Regarding the political leadership, they most often used the public enterprises to pursue the appeasement of their vote banks on the question of accountability. While implementing the reforms, in many cases the politicians in power have wrested the authorized initiative from the official hierarchy to stall changes. K.S Ramachandran suggests that, “the political leadership and administrative machinery must respond in two ways, one by the act of corporatization, and the other by keeping themselves totally out of public sector policy making and operations”²⁸.

After more than five decades of their functioning, the faith in public sector has diminished over the years. The objectives of economic development have not been fulfilled satisfactorily due to several reasons such as over regulated economy, corruption, inefficient management etc. and the social objectives have mostly been misused by the bureaucrats and politicians.

²⁷ Gouri, Geeta, “*Privatization and Public Sector Enterprises in India Analysis of Impact of Non-Policy*”; Economic and Political Weekly; 30th November, 1996; pp. M 63 –M 74.

²⁸ Ramachandran, K.S, “*Reform the Unfolding Story*”; Konark Publishers; Delhi; 1996

CONCLUSION

As we have seen in previous chapters Public sector Enterprises have completed a full circle. The need for public sector was felt much before the India attained independence. Before independence the state enterprises served as an instrument of profit in the hands of the colonial government. Only those sectors were developed which were either essential to be in the government hands such as arms and ammunition or railways and postal services or those sectors which would serve their interests such as fertilizers, sugar mills etc. the objective of social development was completely missing.

The issue of industrial development formed the core of discussion among the leading industrialists and political leaders well before independence. They argued in favour of state intervention and came up with several short and long term plans published in the name of Bombay Plan in 1944. A short while after independence, the Government announced its First Industrial Policy Resolution on 6th April 1948. The statement said, 'that the state must play a progressively active role in the development of industries'. But at the same time, it was noted that the ability to achieve the two main objectives, viz., increased production and equitable distribution, should determine the immediate extent of state intervention and the limits to private enterprise. Eight years later in 1956, second Industrial Policy was announced which later came to be known as "economic constitution". This Resolution gave the centre stage to the Public sector at the same time offering full cooperation to the private enterprises. With time the successive governments came up with Industrial Policy statements in 1973, 1977, 1980. However the performance of public sector kept on deteriorating. In 1991, the government came down with a heavy hand on the public sector with the announcement of New Economic Policy which includes

recommendations for disinvestments to raise resources and to refer chronically sick public enterprises to the Board of Industrial and Financial Reconstruction for revival and rehabilitation.

From the debate on Nationalization in 1948 to the decision of Privatization in 1991, there has been a major shift in the government policy. In above study one comes across certain themes :

Firstly, the original objective of setting up of public enterprises was to initiate industrialization in those areas where private sector was reluctant to enter and also bring about development in the basic and strategic industries which were vital for growth and security of the nation. With time, the span of public sector kept on expanding. Investments increased with marginal returns in terms of profit. In this case there seems to be no harm if the private sector is allowed to participate more in the growth of the country.

Secondly, the management of public enterprises on a commercial basis has been absolutely misused by the government and its bureaucratic controls. The attempts to restructure the public sector undertakings were generally in the form of cleaning the slate, converting the government's loan to different public sector enterprise into equity with a view to reducing the debt service burden. But, with the liberalization of the economy, restructuring has to take a different dimension and cleaning the slate would not do.

The ownership and corporate governance have to be redefined. Public enterprises need to function on business principles with profit as the basic objective.

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