INTER-STRUCTURAL DEVELOPMENTS IN INDIAN ECONOMY

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FOREWORD

ON TAKING OVER POWER from the British imperialists in 1947, the Congress Government launched on the road of independent capitalist development of India. Pundit Jawaharlal Nehru, the then premier and architect of modern India, decided on a planned economy, based on two sectors : a public sector, which was to deal with heavy and basic industries and a private sector, which was to deal with other industries.

There being no hard and fast dividing line between the two sectors, a third sector — joint sector — was bound to take shape and did take shape. The author has carefully gone into these phenomena and drawn the correct conclusion "that the elements of a joint sector...have gone to strengthen the private sector, rather than otherwise".

It must be noted, however, that the author has refused to treat the concept of the joint sector as futile. In fact, he argues for an alternative strategy of the joint sector "aimed at increasing the socialisation of productive forces under public ownership directed towards economic growth with equitable distribution of the national product...". He insists that "such a strategy of a joint sector should mean that dualism...is made to serve the accepted national objectives."

He feels, however, that "unless an integrated approach is adopted to the whole set of problems connected with economic growth and equitable distribution of the national product and unless the corresponding policies which are worked out are implemented with vigour, the country's productive forces will continue to remain a prey to spontaneity...which no amount of exercises in planning can prevent."

Indian economy is, at present, facing a very grave crisis and Indian economists are trying to find a way out. This booklet will help them in the search for the right solution.

1st March 1974,
New Delhi. S. A. DANGE

INDIA'S SOCIO-ECONOMIC STRUCTURE is characterised by the existence of multiple economic structures* covering a wide range, from semi-natural, feudal and small-scale commodity structures which the country inherited from its colonial past to monopoly capitalist and state capitalist structures, which it developed subsequently. The corresponding layers upon layers of superstructures, superimposed upon the ancient caste system, provide the country's vast socio-political canvas upon which changes are being wrought by the various class forces in their development and interrelations. The political party which took over the reins of power from the colonialists, while representing the interests of almost all strata of the exploiting classes in town and countryside to varying degrees had at the same time led the broad masses in their anti-imperialist struggle, and has therefore been also alive to a certain extent to their anti-imperialist sentiments and to their urges for democracy and social progress.

The main thrust of economic development has been directed hence, not so much towards the elimination of lower economic structures, as towards the development of inter-structural horizontal links, not so much towards the elimination of exploitative capitalist production relations in the higher forms of economic

* See Definition of this term in the appendix.

structures, as towards the development of infrastructure and new areas of industry in the state sector. In other words, the strategy of economic development has been based on developing the country's productive forces, *without* bringing about radical changes in the existing pattern of relations of production.

On the plane of economic policy, this means that the forms and the content of state intervention in the development of the productive forces as well as in bringing about certain changes in the production relations, manifested as forms of state capitalism, have been conditioned by a given correlation of political forces at a given moment which, in their turn, have been reflecting the relative positions of multiple economic structures most of which belong, from the point of view of weightage in the economy, to the private enterprise.

Hence, one finds that the economic development has resulted in a situation in which, along with the process of industrialisation, the elements of disproportionality in the economic structures have become further accentuated, and along with the promotion of some interstructuctural production cycles, the establishment of a self-generating cycle of extended reproduction in the economy has remained as far a cry as ever. This situation brings into the focus of attention questions of interstructural relationships as well as the question of direcion of economic development as a whole.

II

INDEED, A STUDY OF THE BASIC DOCUMENTS of the Government's economic policy shows that while that policy proceeds from the assumption that the state sector and the private sector represent two different approaches to economic development, and while it attempts to identify fields of their respective activity with a view to attaining certain desired objectives, it visualises at the same time the *inter-action* as well as joint operation of these two sectors, and is loose enough to contain sufficient room for directional variations despite the lofty goals set therein.

The Industrial Policy Resolution of 1948 (April 6) defined the nation's task as the establishment of "a social order where justice and equality of opportunity shall be secured to all the people". For that purpose, it recognised the need for "careful planning and integrated effort over the whole field of national activity" and proposed "to establish a National Planning Commission to formulate programmes of development and to secure their execution."

Such a programme was to be directed "to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution". Its emphasis was to be "on the expansion of production, both agricultural and industrial, and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange."

III

HAVING SET THE ABOVE AIMS for the elaboration of a programme of industrial development, the Resolution proceeded to identify the respective areas of industrial activity for the state sector and private enterprise. In so doing, the Resolution conceded that even in the case of industries for which the state would be "exclusively responsible for the establishment of new undertakings", there were bound to be exceptions "where, in the national interest, the state itself finds it necessary to secure the cooperation of private enterprise subject to such control and regulation as the Central Government may prescribe."

The resolution hence : (a) admitted the emergence of areas of joint operation of state and private sectors in the industrial field under a mixed economy; (b) recognised the need to "secure the cooperation of private enterprise subject to ... control and regulation...". But it neither defined the forms of such a "cooperation", nor evolved a scheme to work out such control and regulation, let alone provide any guarantees for their implementation.

As for the other aim of the programme, namely "equitable distribution", it satisfied itself by merely stating that "labour's share of the profit should be on a sliding scale normally varying with production", and promising "to take steps to associate labour in all matters concerning industrial production".

Later on came the Industrial Policy Resolution of 1956 (April 30). Its scope was wider, and terminology more concrete. It was a "fresh statement of industrial policy", which was made on the eve of launching the second Five Year Plan (which in fact was the first plan of the country's industrialisation), and which was to serve the goal of "the socialist pattern of society as the objective of social and economic policy."

Among its basic and general principles, meant to give a precise direction to the country's industrial development were the following two also :

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

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

IV

TO REALISE SUCH OBJECTIVES the Resolution presented a model of economic growth :

"to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine-making industries, to expand the public sector, and to build up a large and growing cooperative sector."

It also classified industries into three categories, "having regard to the part which the State would play in each of them".

However, with regard to industries in the first category (listed in Schedule A of the Resolution), in which "all new units" "were to be set up only by the state", the Resolution did not... "preclude ... the possibility of the state securing the cooperation of private enterprise in the establishment of new units when the national interests so require". As for the condition under which such a cooperation might take place, the Resolution stated: "Whenever cooperation with private enterprise is necessary, the state will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking."

In the case of industries falling in the third category also, which was to be left to "the initiative and enterprise of the private sector", state participation was envisaged in the following manner : "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, though it may also be in part in the form of debenture capital."

In these passages of the resolution, contours of an emerging joint sector are clearly discernible. It can thus be said that the strategy of industrial development in a mixed economy admitted from the very beginning, along with the development of a state sector and a private sector, the emergence of areas of joint activity in both sectors.

V

As for its aims of social and economic justice and equitable distribution, this resolution also remained as delightfully vague as the 1948 Resolution by merely confining itself to general platitudes such as : "In a socialist democracy, labour is a partner in the common task of development and should participate in it with enthusiasm". And that "there should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management".

Finally, there came the Industrial Licensing Policy documents (February 1970). In accordance with the recommendations of the Industrial Licensing Policy Inquiry Committee, this document gave a list of "core industries consisting of basic, critical and strategic industries in the economy". The list was drawn up by the Planning Commission "in the light of the production gaps that have to be closed in the course of the Fourth Plan". Apart from such a core sector, this documents also defined a "heavy investment" sector in which "all new investment propositions of over Rs. 5 crores" were to be included.

In these two sectors, the state sector and the private enterprise both were to participate in areas reserved for them under the Industrial Policy Resolution of 1956.

Moreover, this document also stated : "The joint sector concept, suggested in the ILPIC Report, has been accepted in principle. It will be Government's endeavour to apply the concept in the case of major projects taken up by private enterprise groups in the two sectors referred to above." How was this concept to be applied ? The same document suggested : "With the acceptance of the joint sector concept in principle, it will be ensured in future that there is a greater degree of participation in management, particularly at policy levels, in the case of major projects involving substantial assistance from public financial institutions . Public financial institutions will also, as part of their financial assistance arrangements, exercise option for converting loans given and debentures issued in future, either wholly or partly, into equity within a specified period of time."

VI

HENCE TO SUM UP, it can be said that the process of industrialisation in India did not from the very beginning mean the development of public and private sectors strictly on non-intersecting planes and different directions, so that while the public sector keeps on steadily expanding and adding to its specific weight in the economy, the private sector will be getting contracted accordingly. Mixed economy implies a constant interaction of these two sectors; it implies constant attempts at one sector making inroads into the other; it implies constant identification of areas of their joint operation in the industrial field, i.e., the emergence of a joint sector which cannot be simply wished away.

It is another matter that the private sector has made more inroads into the state sector than otherwise, that the basic objectives of economic development are not being realised, that the desired direction of such a development is not being maintained. That is because in practice the operation of the economic system has been such that with the industrial growth, concentration of wealth and means of production to the common detriment has been increasing. That is because despite the enunciation of lofty goals no radical change in the ownership pattern of material resources of the community has taken place.

VII

After more than two decades of planning, the present picture is as follows :

Since Independence, the state sector in India's industry has grown to comprise (i) long-established public utilities like the railways, road transport services, ports, posts and telegraphs, power and irrigation projects; (ii) departmental undertakings of the Central and State Governments (many of them established under the Five Year Plans) such as the Chittaranjan Locomotive Works, the Integral Coach Factory at Perambur, and various Defence Production establishments; and (iii) a number of other industrial undertakings which derive their finances almost wholly from the Central Government in the form of equity capital and loans, and which are operating in such diverse fields as : steel, heavy and light engineering, fertilisers and basic chemicals, drugs, mining and minerals, petroleum, shipbuilding and repairs, aviation, trading, etc. There are also some enterprises of a promotional, developmental or financial nature, such as the National Small Industries Corporation, the Life Insurance Corporation, the Export Credit Guarantee Corporation, etc.

The number of such Central Government industrial undertakings (called "non-departmental enterprises"), their size and their total investments have grown considerably under the government's planning activity. At the commencement of the First Five Year Plan, they numbered only 5, with a total investment of Rs. 29 crores. At the commencement of the Second Five Year Plan, their number was 21, and their total investment was Rs. 81 crores. At the commencement of the Third Five Year Plan, their number was 48, and their total investment was Rs. 953 crores, which increased by the end of that plan to 74 and Rs. 2,415 crores respectively. As on March 31, 1970, there were 91 such Central Government public undertakings which include four undertakings which are subsidiaries and also a consortium constituted by five government companies, with a total investment of Rs. 4,301 crores.[1]

Out of this total, a sector-wise distribution of investments shows that, 31.99 per cent was in steel, 23.72 per cent in engineering, 11.37 per cent in chemicals, 9.29 per cent in petroleum, 8.56 per cent in mines and minerals, 4.30 per cent in aviation and shipping, 7.30 per cent in trading, 2.32 per cent in miscellaneous undertakings and 0.16 per cent in financial institutions.[2]

VIII

On the whole, investments in the state sector have been heavier than in the private sector, and increased faster as well. (Table 1).

Table 1

INVESTMENTS IN THE PUBLIC AND PRIVATE SECTORS

		Investment (Rs. crores)			*Percentage distribution*		
		Total Investment	*Public Sector*	*Private* Sector*	*Total Investment*	*Public Sector*	*Private Sector*
I Plan	1951-56	3,360	1,560	1,800	100	46.4	53.6
II Plan	1956-61	6,831	3,731	3,100	100	54.6	45.4
III Plan**	1961-66	10,400	6,300	4,100	100	60.6	39.4
IV Plan**	1969-74	22,635	13,655	8,980	100	60.3	39.7

* Excludes transfers from public to private sector.

** Target

Source : *Pocket Book of Economic Information;* Department of Economic Affairs, Ministry of Finance; 1971; New Delhi; p. 264.

Thus, the public sector developed particularly in the sphere of production of means of production. Its share in the production in such branches of heavy industry as ferrous metallurgy, electricity, oil exploration and refining, heavy electrical machinery, outstripped private sector's share. For instance, by March 1970, the public sector was producnig about 62 per cent of pig iron, 45 per cent of finished and alloyed steel and rolled metal, 68 per cent of zinc, 48 per cent of machine tools, 77 per cent of fertilizers and 52 per cent of oil in the country.[3]

However, such a leading position in some of the key industries and overall heavier investments have not as yet enabled the public sector to increase its weight substantially, either in the domestic product, or in the net value added to domestic product. Even now, 86.4 per cent of the net domestic product is produced in the private sector (Table 2), and over 90 per cent of the net value added to domestic product (i.e., surplus value) originates outside the public sector (Table 3).

Table 2

SHARE OF PUBLIC AND PRIVATE SECTORS IN DOMESTIC PRODUCT

	Amount (Rs. Crores)			*Per cent*		
	1960-61	1965-66	1968-69*	1960-61	1965-66	1968-69*
Net Domestic Product	13,366	20,786	28,936	100	100	100
Net Product of Public Sector ..	1,419	2,740	3,945	10.6	13.2	13.6
of which						
Government Administration ..	735	1,367	1,994	5.5	6.6	6.9
Departmental enterprises ..	522	890	1,140	3.9	4.3	3.9
Non-departmental enterprises ..	162	483	811	1.2	2.3	2.8
Net Product of Private Sector ..	11,947	18,046	24,991	89.4	86.8	86.4

* Provisional.

Source : *Pocket Book of Economic Information;* Department of Economic Affairs, Ministry of Finance; 1971; New Delhi; p. 37.

It can be seen from Table 2 that even out of the 13.6 per cent share of the public sector in the domestic product, almost half of it — Rs. 1,994 crores out of the total share of Rs. 3,945 crores — is due to government administration, i.e., originates in the non-productive sphere.

These figures at once put in a sharp focus the magnitude of the problem of economic development as well as the limitations of the state sector despite its rapid growth and its consequent cost to the economy.

IX

A BREAK-DOWN OF THE NET DOMESTIC PRODUCT by industry of origin reveals that in 1969-70, the respective shares of the main branches of the economy in it, at current prices, were as follows: (i) agriculture, forestry and fishing — 49.7 per cent, (ii) mining and quarrying, manufacturing, construction, electricity, gas and water supply — 19.9 per cent, (iii) transport and communication, trade, etc. — 15.3 per cent, (iv) banking and insurance, public administration, defence and other services — 15.1 per cent. At constant prices, these ratios change to (i) 43.7 per cent, (ii) 22.9 per cent, (iii) 15.9 per cent, and (iv) 17.5 per cent respectively.[4]

Taken together, it means that unless production relations in the economic structures which still produce the major share of the domestic product are changed to higher forms, unless forms of state capitalism are evolved for the agricultural sector which still produces almost half of the domestic product, and unless the corresponding fiscal and monetary policies are elaborated and implemented, no radical change in the present pattern of the national product is possible.

Moreover, even in the restricted field of industrial development in which the main thrust of state capitalism has been directed, the state sector has to face the challenge of a powerful, skilled private sector with its large monopoly houses that had already appeared on the country's economic scene right at the onset of industrialisation and even earlier.

It can be seen from Table 3 (on the next page) that

(i) the private sector still commands over 73 per cent of total capital employed in the Indian corporate sector;

(ii) with about 70 per cent of the gross fixed assets in its hands, the private sector has at its disposal over 90 per cent of the net value added (i.e., surplus value);

(iii) at the present rate of change in the relative shares of the two sectors in the net value added, the time required for the public sector to possess 50 per cent of the net value added is anybody's guess (say, a hundred years to move up by 40 points at the rate of 4 points per decade);

(iv) as for the profits, it can be seen that profits after tax actually declined in the case of public sector, registering a loss (of 12.9 per cent) in 1968-69, whereas the private sector continued to thrive impressively.

Table 3

RELATIVE SHARE : SOME ECONOMIC INDICATORS OF PUBLIC AND PRIVATE SECTORS

(Percentages)

	1960-61	1965-66	1968-69
Total Capital employed			
Public Sector	8.7	21.8	26.6
Private Sector	91.3	78.2	73.4
Gross Fixed Assets			
Public Sector	7.6	24.9	30.3
Private Sector	92.4	75.1	69.7
Net Value Added			
Public Sector	5.2	8.2	9.2
Private Sector	94.8	91.8	90.8
Gross Profits			
Public Sector	4.8	8.8	6.0
Private Sector	95.2	91.2	94.0
Profit after Tax			
Public Sector	5.8	5.0	— 12.9
Private Sector	94.2	95.0	112.9

Source : *Economic Times;* Bombay; December 14, 1971.

X

IT SHOULD BE NOTED THAT among the state sector non-departmental undertakings which have registered loss, there are not only those producing primary products. They also include enterprises producing intermediary products and even finished products of Department (ii) (consumption). Indeed, their range is almost as wide as that of the present state sector, extending from Hindustan Steel, Hindustan Machine Tools, Mining and Allied Machinery Corporation to Praga Tools, National Instruments, and upto Hindustan Photo Films Manuafcturing Co., and Modern Bakeries (Table 4).

Table 4

INVESTMENT, SALES TURNOVER AND LOSSES OF SOME STATE SECTOR UNDERTAKINGS IN 1969-70

(Rs millions)

Name of the Underatking	*Investment*	*Sales/ Turnover*	*Net Loss*
Hindustan Steel	10,628.1	3,813.3	109.1
Praga Tools	59.0	14.5	5.4
Hindustan Machine Tools	293.4	166.7	8.7
Heavy Electricals (India)	1,233.6	215.7	78.1
National Instruments	65.1	5.2	12.5
Heavy Engineering Corporation ..	2,469.7	182.7	172.3
Bharat Heavy Electricals	1,737.9	376.1	14.9
Mining & Allied Machinery Corpn. ..	560.0	18.3	64.0
FACT	704.0	260.6	19.8
National Newsprint & Paper Mills ..	116.0	43.4	8.8
Hindustan Photo Films Mfg. Co. ..	158.3	37.2	20.5
I.D.P.L.	754.3	48.1	92.0
Neyveli Lignite	1,704.7	339.0	44.0
N.M.D.C.	500.6	298.0	2.7
Modern Bakeries	34.1	23.9	0.9

Source : *India — A Reference Annual, 1971-72;* Ministry of Information and Broadcasting; New Delhi; p. 350.

It appears that sales turnover was hardly a factor in determining investment in an enterprise as can be seen from the extreme cases of Heavy Engineering Corporation and National Instruments. In the case of the former, net loss was 94 per cent of its sales turnover, and in the case of the latter it was 221 per cent.

With such a disregard for the efficiency of the public corporate sector (i.e., government non-departmental undertakings), it need not be a surprise that "corporate net saving remains a negligible figure and makes little contribution to public saving", which is rightly considered to be "incompatible with the requirement of accelerated development".[5]

XI

HOWEVER, WHAT MAKES THE SITUATION WORSE CONFOUNDED is the fact that, despite the private corporate sector's better performance as regards production efficiency, its contribution to net saving is even poorer.

The Reserve Bank of India's estimates of (net) saving of the government and the domestic corporate sectors show that the latter's share has been not only very little, but actually declining since a decade — from 0.8 per cent of the national income in 1961-62, it declined to 0.2 per cent in 1968-69 (Table 5).

Table 5

ESTIMATES OF (NET) SAVING OF
THE GOVERNMENT AND THE DOMESTIC CORPORATE SECTORS

(in Rs. crores, at current prices)

	Savings of the Govt. sector	*Per cent to national income*	*Savings of the domestic corporate sector*	*Per cent to national income*
1960-61	238.2	1.8	107.5	0.8
1961-62	348.5	2.5	109.4	0.8
1962-63	411.2	2.8	133.9	0.9
1963-64	538.5	3.2	142.9	0.8
1964-65	536.8	2.7	91.6	0.5
1965-66	659.9	3.2	89.2	0.4
1966-67	413.3	1.7	103.3	0.4
1967.68	309.7	1.1	49.3	0.2
1968-69	559.1	1.9	62.4	0.2

Source : *Report on Currency and Finance, 1971-72;* Reserve Bank of India Bombay; Statement 6; pp. 512-13.

Moreover, recent Reserve Bank of India studies of the finances of medium and large companies, public limited as well as private limited, also show that while there has been a considerable rise in the profits, particularly retained profits, there has been a continuous fall in the rates of fixed assets formation.

In the case of the public limited companies, the study shows that "the percentage rise in profits before tax was as high as 30.1 in 1969-70 compared with the corresponding percentage rise at 1.3 in 1968-69". And yet, "the continuous fall in the rates of fixed assets formation, gross and net, noticed in the previous years continued in 1969-70 though at a reduced pace."[6]

mining investment in an enterprise as can be seen from the extreme cases of Heavy Engineering Corporation and National In-

XII

IN THE CASE OF THE PRIVATE LIMITED COMPANIES, the study shows: "The 'retained profits' of 290 *large* companies doubled from Rs. 45 crores in 1968-69 to Rs. 97 crores in 1970-71. 'Profits retained' as percentage of 'profits before tax' in respect of these companies achieved a sharp recovery from 18.8 per cent in 1968-69 to 27.1 per cent in 1969-70 and 26.2 per cent in 1970-71, surpassing all earlier levels. This rising trend in 'retained profits' is significant, for it controverts the view that lack of profits retained continues to depress private sector investment."[7]

From the foregoing considerations of the main trends in the development of the state and the private sectors as well as their relative strength in the national economy, it may be concluded :

(a) that the state sector is as yet unable to improve its efficiency and is also unable to achieve fully the *realisation* of its product and thus establish its own cycle of production; (b) that the private enterprise is able to use the state sector as its own "generator", but is not willing to make its due contribution to the attainment of nationally accepted objectives of socio-economic development; and (c) that the government's policies in securing the "cooperation" of the private sector have so far served as a one-way traffic — only to strengthen the positions of the private sector instead of making effective inroads into it, i.e., having an effective say in the disposal of its net value added (surplus value).

XIII

FROM THE ANGLE OF INTER-STRUCTURAL RELATIONSHIP, it means that the elements of a joint sector which have arisen with time within the framework of a mixed economy have gone to strengthen the private sector, rather than otherwise.

Firstly, there are the enterprises belonging to large industrial houses (private corporate sector) which exist on substantial loans from various public financial institutions.

In fact, the various mixed undertakings that have already appeared on India's economic scene lend themselves to be grouped broadly in five or six types.

As disclosed by the Minister of Finance in the Rajya Sabha on August 3, 1972, loans given by various public financial institutions to concerns belonging to 75 industrial houses listed in appendix II of the Report of the Industrial Licensing Policy Inquiry Committee, were as follows :

Table 6

LOAN DISBURSEMENT

Loan disbursed by :	*Number of concerns which received loans*	*Amount of term loans disbursed upto 31-3-72 (Rs. crores)*	*Percentage to total disbursed.*
The Industrial Development Bank of India	22	63.85	53.2
The Industrial Finance Corporation of India	40	77.83	30.2
The Life Insurance Corporation of India	12	17.54	66.03
The Industrial Credit and Investment Corporation of India	53	93.31	47.36

Source : *Mainstream;* New Delhi; September 30, 1972; Statements I — IV pp. 10-12.

This information shows that Monopoly Houses are indeed the major clients of the Government financial institutions. There is thus a considerable flow of capital from the public sector to the private corporate sector.

The extent to which some of the large companies in the private sector have come to depend upon this flow was shown in an *Economic Times*[8] (December 15, 1970) study of finance of 113 companies. According to it, upto 90 per cent of the financial requirements of the majority of these companies were being met by the loan capital provided to them by various public financial institutions. In case even 50 per cent of that capital is converted into equity, then these institutions would be owning practically over 51 per cent of the stock of many of these companies.[9]

XIV

TRUE, THE GOVERNMENT HAS ELABORATED some sort of guidelines providing for convertibility in this group of undertakings. A convertibility clause is supposed to have been written in every case of fiscal assistance to a corporate entity by public financial institutions where the aggregate lending exceeds Rs. five million. In the range of Rs. 2.5 million to Rs. 5 million of aggregate lending, the institutions have the discretion to insist on such a clause. There is also the further provision that the financial institutions should nominate representatives on the boards of all assisted concerns where the nature of the assistance is substantial. In other cases, financial institutions are to exercise their discretion whether or not to nominate directors on the boards of assisted undertakings. In case any individual is given bank credit in excess of Rs. 50,000 on the pledge of the shares of a company, there is a provision by which the bank concerned is expected to arrange the shares to be transferred in its name and exercise voting rights at the annual general meeting of the company in accordance with the wishes of the Life Insurance Corporation of India.[10]

But so far, these guidelines have proved to be of little practical value. As the note referred to above points out : "Till now apart from stray instances where the management has been directly taken over by the government — as in the case of IISCO — or where government institutions have directly purchased a major part of the equity of a company specifically with a view to taking over the management — as in the case of Balmer Lawrie — the right to participate in the boards of companies in which, by happenstance or otherwise, they have come to acquire substantial equity, has been exercised very sparingly by the financial institutions. The LIC has representatives on the boards of a number of public limited companies, including, e.g., electricity undertakings, but its nominees have not been known to play any active role in managerial decision-making. In the case of other units, on occasions when groups of powerful private interests have fallen out among themselves, representatives of public financial institutions having a stake in the equity, have been known to pay the role of arbiter; but having done the arbitration, they have receded, once more, into the background.

XV

THE SECOND GROUP OF UNDERTAKINGS comprises of those undertakings in which public financial institutions (PFI) hold a considerable share in the equity. Even in TISCO, which belongs to the House of Tatas, PFI holds about 38 per cent of the equity capital and constitutes the single largest shareholder. PFI's equity holdings in Associated Cement Company (ACC), Voltas and Escorts, have been known to be 40 per cent, 30 per cent, and 40 per cent respectively.[11]

There are also companies such as Hindustan Tractors, India Cement, Texmaco, Kothari Textiles, in which PFI possess 30-40 per cent of the equity. State's aggregate share in the equity capital of the investigated 113 companies (estimated at Rs. 1,097 crores in 1970) was found to be 16 per cent.[12]

As the *Economic and Political Weekly* article referred to above points out : "All these have benefitted largely from the use of public funds, but there has been little or no public direction of them in line with socio-economic policy of the government. Indeed, many of them have drawn, apart from equity capital, substantial loans from the government or financial institutions on which they pay a rate of interest very much lower than the rate of dividend they declare to the equity shareholders."[13]

XVI

IN THE THIRD GROUP OF MIXED ENTERPRISES may be considered such Public Industrial Enterprises which are supposed to be used, apart from a means of generating resources for investment in the development process, "also as a means of mobilising domestic private capital". In such enterprises "private parties participate in providing the equity and enjoy the right of representation in the Board". According to a paper prepared by the Bureau of Public Enterprises, Government of India,[14] as on 31-3-1971, there were 11 such enterprises of "the mixed type with considerable Central Government investment harnessing private capital of the order of Rs. 110 crores", as shown in the table below :

Table 7

PRIVATE AND GOVERNMENT INVESTMENT

(In Rs. Crores)

	Name	*Total Govern-ment Investment*	*Total in-vestment by private parties and financial institutions*	*Total*
1.	Oil India Ltd.	24.41	35.25	59.66
2.	Singareni Collieries	21.44	0.04	21.48
3.	British India Corporation ..	1.06	3.38	4.44
4.	Indian Explosives Ltd.	2.74	49.04	51.70
5.	Bolani Ores	0.51	0.49	1.00
6.	Sindhu Resettlement Corporation ..	0.51	1.02	1.53
7.	Manganese Ore India Ltd. ..	1.10	1.06	2.16
8.	Machinery Mfg. Corporation ..	0.33	1.43	1.76
9.	Sikkim Mining Corporation ..	0.41	0.26	0.67
10.	Jessop & Co. Ltd.	5.62	4.25	9.87
11.	Lube India ltd.	2.40	14.25	16.65
	TOTAL	60.53	110.47	171.00

Source : "Profitability and Prices in Public Enterprises in Relation to Capital Formation and Generation of Resources for Further Development", *Souvenir of the International Seminar of Economic Journalists;* New Delhi; December 4-9, 1972; p. 149.

XVII

FOURTHLY, THERE ARE SOME PUBLIC SECTOR UNDERTAKINGS in which foreign capital is allowed to enter through direct loans and equity participation by the foreign collaborators. Of these, the enterprises with foreign equity participation can be considered to be

Table 8

ENTERPRISES AND FOREIGN LOANS

(In Rs. Crores)

	Name of the enterprise	*Foreign Equity*	*Foreign Loan (excluding deferred credit)*	*Total foreign funds*
1.	Madras Fertilizers	6.69	13.20	19.89
2.	Madras Refineries	3.35	9.38	12.73
3.	Cochin Refineries	1.85	9.76	11.61
4.	Triveni Structurals	1.47	—	1.47
5.	Indian Telephone Industries ..	0.81	3.31	4.12
6.	Mogul Lines	0.19	4.05	4.24
7.	Hindustan Aeronautics	—	107.87	107.81
8.	Fertilizer Corporation of India ..	—	48.84	48.84
9.	Air India	—	41.47	41.47
10.	Indian Airlines	—	29.03	29.03
11.	Shipping Corporation of India ..	—	25.96	25.96
12.	Heavy Engineering Corporation ..	—	23.47	23.47
13.	State Trading Corporation ..	—	22.61	22.61
14.	Bharat Heavy Electricals ..	—	12.60	12.60
15.	Hindustan Steel Ltd.	—	10.24	10.24
16.	National Small Industries Corpn.	—	6.52	6.52
17.	Oil & Natural Gas Commission ..	—	5.32	5.32
18.	Indian Petrochemical Corpn. ..	—	5.32	5.32
	Others	0.34	40.34	40.68
	TOTAL	14.70	419.23	433.93

Table 8 "Profitability and Prices in Public Enterprises in Relation to Capital Formation and Generation of Resources for Further Development", *Souvenir of the International Seminar of Economic Journalists;* New Delhi; December 4-9, 1972; p. 150.

of a mixed type. As on 31-3-1971, the total foreign fund obtained from these sources in the Central public sector enterprises was of the order of Rs. 433.9 crores comprising of equity Rs. 14.7 crores and loan Rs. 419.2 crores. Statement on page 28 shows the enterprises with large amount of such foreign loan and equity :

In this table, although there are practically six enterprises with foreign equity holdings, yet it cannot be taken as a rule that the balance of payments cost of loan arrangements is always advantageous to the recipient country than the balance of payments cost of equity investment. The question has to be considered in each case by taking into account the terms of agreements such as the duration of the loan and interest rate for loan arrangements, and the varying net profit rates with varying retained and remittance proportions for equity investment.

XVIII

INTER-STRUCTURAL ACTIVITY BETWEEN the public sector and the monopoly capital and foreign capital is not confined to the sphere of production alone. In the sphere of circulation as well, a large number of private units have sprung up all over the country which have made the public sector a happy hunting ground for middlemen of all types. An *Economic and Political Weekly* study[15] has given a number of illustrations of such private uses of the public sector through the network of purchasing agencies, selling agencies, suppliers, contractors, sub-contractors, distributors, analysts, etc.

The *National Coal Development Corporation* (NCDC), the largest public sector organisation for producing non-coking coal in the country, distributes its coal not directly to consumers, but through middlemen. Even another public sector unit seeking coal from NCDC has to secure it through the services of middlemen. For instance, the thermal projects of U.P., which are one of the main consumers of NCDC, and most of whom are situated next door to the NCDC collieries, purchase their coal through middlemen. *Bharat Coking Coal* (BCC) was recently set up to manage the coking coal mines taken over from the private collieries. It supplies coking coal to the steel units all of which, except TISCO, are in the public sector. Yet, until recently, the coal supplied by BCC to the public sector Hindustan Steel was analysed and sampled by private sector firms calling themselves "public analysts". *Hindustan Steel* produces substantial quantities of fertilisers. It produces superphosphates in all plants and calcium ammonium nitrate at Rourkela. It has stockyards and resident representatives all over the country. Yet it employs *Shaw Wallace* and other large houses on fabulous commission to distribute its fertilisers. *Fertiliser Corporation of India,* is another government undertaking which produces fertilisers, but employs private sector firms, including *Shaw Wallace*, to distribute its products for a commission. *Neyveli Lignite Corporation* distributes urea through *Rallis India,* a private monopoly house. The *Heavy Engineering Corporation* at Ranchi which manufactures machine tools against orders, distributes them through the sole agency of *Batliboi* to whom even government departments have to pay a commission of 7.5 per cent in order to secure machine tools.

Thus, it can be seen that through the agency of distributors at the output end and that of suppliers and various sub-contractors at the input end, the private corporate sector is able to appropriate a considerable part of the surplus value produced in the public sector, not only in the production sphere, but in the circulation sphere as well.

All these are indeed areas of the joint sector which has been emerging in the Indian economy, but which is still diffused to the benefit of the private corporate sector, with practically no plan to regulate its profits and investment.

A disregard of these facts of economic reality, and a restriction to only restrictive licensing policies have meant merely a choice for oligopolies in place of monopolies, an encouragement to their diversification and dysfunctional interconnections, and indeed a retardation in economic growth.

XIX

THIS SET OF PROBLEMS HAS ACQUIRED an added urgency in view of the slowing down of the overall and sectoral growth rates which is being observed of late in the Indian economy.

For the years 1969-70 and 1970-71 the annual growth rates of the national income have been 5.3 per cent and 4.8 per cent as against the envisaged rate of growth of 5.6 per cent. Taken sectorwise, some of these rates have been : for mining and quarrying — 6.0 per cent and (—) 1.2 per cent as against the envisaged 0.8 per cent; for large scale manufacturing — 5.9 per cent and 3.6 per cent as against the envisaged 9.3 per cent; for small-scale manufacturing — 3.4 per cent and 3.6 per cent as against the envisaged 5.2 per cent; for construction — 6.7 per cent and 3.0 per cent as against the envisaged 8.6 per cent; for transport and communication — 5.9 per cent and 3.8 per cent as against the envisaged 6.4 per cent. Agricultural sector has been able to show some rise over the envisaged rate of growth during these two years registering 5.2 per cent and 5.3 per cent as against the envisaged 5.0 per cent.[16] Even so, the sharp spurt in the prices of foodstuffs can hardly make that a matter of consolation for the consumers.

XX

IT HAS NOT BEEN THEREFORE A MATTER OF ACCIDENT that when the country's economic problems are in the focus of public attention, when questions of industrial growth, unemployment, price rise, inflation, have become quite disturbing, when the fifth Five Year Plan is on the anvil requiring serious thoughts about the direction of economic development, the country's topmost monopoly house, the Tatas, have come out with a memorandum raising a diversionary ballyhoo around its own version of a *joint sector.*

This memorandum, while accusing the "Government's policy of using its virtual monopoly of investment and loan capital to acquire control of large companies in the private sector", and thereby creating "a powerful psychological deterrent to fresh investment" — even before such a policy has been properly worked out, let alone any measures taken to implement it — has expounded its version of the joint sector concept as follows : "Our views and recommendations in this memorandum are based on the assumption that a joint sector enterprise is intended to be a form of partnership between the private sector and Government in which Government's participation in the capital will be not less than 26 per cent, the day-to-day management will normally be in the hands of the private sector partner, and control and supervision will be exercised by a board of directors on which Government is adequately represented."[17]

XXI

IT IS CLEAR THAT THE PRIVATE CORPORATE SECTOR would either have a diffused, camouflaged joint sector or have it defined as an appendage to the corporate sector.

It is also clear that this is, indeed, a phenomenon of inter-structural relationship in the Indian economy which has acquired greater acuteness at the junction of its two highest economic structures, namely the public corporate sector and the private corporate sector (which holds over half of the physical assets of the organised private industry). As these two sectors represent two approaches towards and directions for the development of the national economy, it is in the interests of nationally accepted socio-economic objectives that the concept of a joint sector be developed as a form of state capitalism in India.

In this context, the government's decisions on industrial policy, issued as a press note on February 2, 1973,[18] mark a significant step with a view to extend the ambit of state intervention over the direction of the country's industrial development, to expand production and state enterprise, to enhance savings and channelise investments to priority spheres and to check the influx of the surplus product from the other economic structures into the monopoly sector of the capitalist structure, while promoting the development of the medium and smallscale sector.

In line with the Industrial Policy Resolution of 1956, this statement reiterates that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in the present circumstances could provide, have also to be in the public sector. Furthermore : "In the context of the approach to the Fifth Plan, the State will have to take direct responsibility for the future development of industries over a wide field in order to promote the cardinal objectives of growth, social justice, self-reliance and satisfaction of basic minimum needs."

In order to extend the field of state intervention in the private corporate sector, the present Industrial Policy Statement has removed the contradiction between the definition of larger industrial houses for licensing purposes based on the Industrial Licensing Policy Inquiry Committee report, and the one based on the Monopolies and Restrictive Trade Practices Act of 1969 for the control of concentration of economic power, by adopting the latter. The definition of larger industrial houses adopted by the ILPIC was on the basis of assets, along with assets of inter-connected undertakings exceeding Rs. 35 crores. Such concerns were ordinarily excluded from participating in sectors other than the core and heavy investment sectors, leaving the opportunities in the remaining sectors primarily to other classes of entrepreneurs. Whereas the definition adopted in the MRTP Act was on the basis of a lower limit of assets, along with assets of inter-connected undertakings, of not less than Rs. 20 crores. It is now considered that the adoption of the definition as provided in the MRTP Act 1969 "will result in a more effective control on the concentration of economic power."

XXII

BY DOING AWAY WITH THE CONCEPT OF a heavy investment sector, large industrial houses will no longer be allowed to expand outside the new core list solely on the criteria of massive investments. But they will be permitted to make investments below Rs. 5 crores within the core sector which are relevant for some sophisticated fields.

At the same time, by presenting a consolidated list of "core industries of importance to the national economy in the future, industries having direct linkages with such core industries, and industries with a long-term export potential", (as attached in Appendix I to the Press Note), in which larger houses will be eligible to participate and contribute to the establishment of industries for the sake of economic growth, the government has also extended the areas of operation of the private corporate sector in industry. For instance, paper and cement were not included in the old core list, but were covered under the heavy investment category, along with a few selected items of industrial machinery. The new core list includes all kinds of industrial machinery, machine tools and instruments, paper, cement, ceramics, plate glass, tyres and tubes, drugs and pharmaceuticals, scientific instruments, and a very wide range of chemicals.

True, there are provisions which debar monopoly houses from taking up items of manufacture that are reserved for production in the public sector or in the smallscale sector. It is also stated that larger houses "will *ordinarily* (emphasis added—R.S.) be excluded from the industries not included in this list except where, as is permitted under existing arrangements, production is predominantly for exports." But unless stronger safeguards are provided, the past experience has shown that these "ordinary" exclusions will continue to remain quite extraordinary in practice.

XXIII

SIMILAR CONSIDERATIONS AS THE ABOVE are applicable in the case of foreign concerns and subsidiaries and branches of foreign companies which will also be eligible to participate in the expanded list of industries specified in Appendix I, but "will ordinarily be excluded from the industries not included in this list." Indeed, in this case the dangers are greater, and "exceptions" are quite revealing.

As on March 31, 1972, there were 541 foreign companies as defined under Section 591 of the Companies Act which were at work in India. Among these, there is a British company engaged in wholesale trade, a Swedish company engaged in retail trade, an American company with its headquarters in Pennsylvania engaged in "religious" and other business services, another American company with headquarters in New York engaged in what is described as "personal services", several foreign companies engaged in "educational services", or in activities like storage and warehousing, water storage and supply, recreation services, theatres and related services, real estate and estate agencies, etc. A company with American capital participation was recently allowed to manufacture chewing gum under the cover of diversification of production.[19] How do these facts score up with investment in "industries where production is predominantly for exports" is too intricate a point of the foreign participation game.

XXIV

As REGARDS THE GOVERNMENT POLICY of promoting medium, smallscale and cooperative sectors, the present statement is in line with the trends noticeable in India's socio-economic development of late. It says that Government's policy will continue to be to encourage competent small and medium entrepreneurs in all industries including those listed in Appendix I; that such entrepreneurs will be preferred vis-a-vis the larger industrial houses and foreign companies, in the setting up of new capacity; that licensing policy will seek to promote production of ancillaries, wherever feasible and appropriate, in the medium or smallscale sector; and that cooperatives and small and medium entrepreneurs will be encouraged to participate in the production of mass consumption goods with the public sector also taking an increasing role.

Moreover, by excluding larger industrial houses, dominant undertakings as defined in the MRTP Act and foreign companies (along with their branches and subsidiaries) from the exemption limit from licensing provisions which now applies to substantial expansions and new undertakings upto Rs. one crore by way of fixed assets in land, buildings and machinery, and by making the exemption not applicable to existing licensed or registered undertakings having fixed assets exceeding Rs. five crores, the government hopes that "these changes will act as a safeguard against the energy of large undertakings into areas that are primarily meant for small, medium and new entrepreneurs."

These changes should prevent big business from entering areas outside the core list simply because the proposed investmeant is more than Rs. 5 crores (e.g. cigarettes or perfumes), while permitting them to enter in some sophisticated fields of production requiring specialised know-how but small capital outlay.

XXV

HAVING DEALT WITH THE ROLE of the public sector in the economy and the government policy towards the corporate sector, foreign concerns and medium, small-scale and cooperative sectors, the present industrial policy statement of February 1973 goes on to define the government policy towards the inter-structural phenomena of the joint sector.

It admits the existence of joint sector units in the Indian economy and declares that "Government's policy regarding the joint sector is derived from the Industrial Policy Resolution, 1956, and the objective of reducing the concentration of economic power."

It considers a joint sector unit as "a device which may be resorted to in specific cases having regard to the production targets of the Plan", and as "a promotional instrument...in cases where state governments go into partnership with new and medium entrepreneurs in order to guide them in developing a priority industry."

Furthermore, the statement declares: "the government specifically wishes to clarify that the joint sector will not be permitted to be used for the entry of larger houses, dominant undertakings and foreign companies in industries in which they are otherwise precluded on their own. In all the different kinds of joint sector units, the government will ensure for itself an effective role in guiding policies, management and operations, the actual pattern and mode being decided as appropriate in each case."

It can be seen that this concept of the joint sector is a rejection of the concept propounded in the Tata Memorandum. While that was necessary, it is still not sufficient to consider the joint sector only as a device to achieve certain production targets of the Plan, or promotional instruments for new and medium entrepreneurs. The joint sector must also be an instrument to restrict the concentration of economic power, to hasten the transformation in the country's multiple economic structures — in other words, to be supplementary to the state sector.

It may be mentioned here that joint sector is not an altogether new form of state capitalism. In fact, in the Soviet Union, one of the main forms of state capitalism as concessions given to foreign capital was a joint sector. Of course, that was under the dictatorship of the proletariat which determined its direction of development and its ultimate objective.

In India, since a call for the takeover of the entire private corporate sector is quite impractical at present, an alternative should be to identify the areas of the joint sector and work out a strategy of the joint sector in order to bring about a substantial change in the existing pattern of economic structures (with its consequent change in the correlation of class forces) aimed at increasing the socialisation of productive forces under public ownership directed towards economic growth with equitable distribution of the national product and consequently, at pre-preventing further concentration of economic power in a few hands as well as accentuation of the multiplicity of economic structures.

XXVI

IN THE FIELD OF INDUSTRY, such a strategy of a joint sector should mean that dualism, which is inherent in its control and which has been serving so far the interests of the private corporate sector to the detriment of the public sector and the national objectives of economic growth, is made to serve the accepted national objectives; better use of production capacities in the public as well as private sectors is made by setting up joint enterprises with due regard to the production cycles and to the *realisation of the surplus product*; intersectoral flow of capital as well as profits and investment are regulated in the overall interests of the national economy; managerial and technical skill of the private corporate sector is utilised for purpose of industrial growth; medium and small-scale industry is protected from monopoly capital and its potential more effectively utilised; new avenues are discovered for foreign collaboration in accordance with the economy's set objectives; public sector's share in domestic product and in the net value added is increased at a substantially faster rate; the multiplicity in economic structures is radically transferred and gradually reduced; and, above all, the desired direction to economic development is restored and maintained.

However, one can hardly overemphasise the fact that unless an integrated approach is adopted to the whole set of problems connected with economic growth and equitable distribution of the national product, and unless the corresponding policies which are worked out are implemented with vigour, the country's productivie forces will continue to remain a prey to spontaneity in the maze of economic structures which no amount of exercises in planning can prevent.

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IN A TRANSITIONAL TYPE OF SOCIETY an economic form is the state of a mode of production, which, should it ultimately defeat (destroy or subjugate) the other economic forms, becomes a formation, thus completing the period of transition from one formation to the next, that is, the period of multiple economic forms.

The following economic forms exist in Asia and Africa today: the patriarchal (chiefly of the large mass of rural dwellers); small commodity (the origin of the urban and rural petty bourgeoisie); small capitalist (represented by small-scale capitalist enterprise); developed local capitalism (represented by the local big and middle bourgeoisie); foreign monopoly (represented by the foreign bourgeoisie); state capitalism, and a few others. This article examines just one — the state-capitalist economic form.