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CHAPTER FIVE

PUBLIC ENTERPRISES

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CHAPTER - VPUBLIC ENTERPRISES

Nehru and Public Enterprises have much to do with each other. Nehru's political thought, or Nehru's contribution to the development of India, cannot be assessed, without understanding what Nehru intended by introducing Public Sector in the developmental process. Many studies on Nehru seem lopsided as they have not brought forth his ideas on what he meant by public corporations, and how he desired that they should be managed. All these aspects have been analysed in this chapter, which many throw also some light on the role and position of public corporations in India.

On August 15, 1947, when India became free, it was found backward in econo-industrial and commercial fields of activities. Inequalities existed between the urban and rural sectors. There were regional disparities in economic development. It was poverty illiteracy and disease all round. Nehru decided to make an all out frontal attack on the Socio-economic industrial backwardness of the nation in order to eradicate, mass unemployment and massive poverty. He carved for self-sufficiency in all the fields and spheres of the life of the Nation.

On the eve of Independence Nehru spelt out his own opinion on the problem of socialization of economic activities in the following terms. " Far too much attention is often paid in acquiring existing industries than to the building of new industries by the state or under state control. Existing industries of the basic type may have to be acquired by the state and seen by the state. But it seems to me a far better approach to the problem for the state to concentrate more and more on new industries, of the latest type and to control them in a large measure, because then the resources of the state go towards, progress instead of merely trying to get hold of something which exists." ¹

Taking into consideration the need of enormous technology and science, Nehru declared that " the most important thing for the state is that whatever may happen to the existing sources of production, these new and novel sources of production should always remain in the hands of state. We would not allow them to go into private hands and thus become private monopolies. And in regard to existing sources, we should proceed step by step and avoid any drop in production or disturbance of the economic structure as far as possible" ²

Prior, to 1947, there was virtually no ' Public Sector ' in the Indian Economy. The only instances worthy of mention were Railways, the Posts and the Telegraphs, the Port Trusts, the Ordnance and Aircraft factories and a few state managed undertakings like the government salt factories, quining factories etc.³ The idea that economic development should be promoted by the state actually managing industrial concerns did not take root in India before 1947, even though the concept of planning was very much discussed by the Congress government as far back as 1931.

In the post independence period the first step in this direction was taken when the first industrial Policy Resolution was passed by the Government of India in 1948. Substantially conscious of stagnant production conditions of the country the Resolution emphasised on ' increased production', ' Continuous increase in production by all means' and " on expansion of production." ⁴ Towards this end the Government felt that the state must " play a progressively active role in the development of industries. The state should contribute more quickly to the increase of national wealth," ⁵ by expanding its activities where it is already operating and by concentration on " new units of production in other fields rather than on acquiring and running existing units." ⁶

The Resolution further elaborated that " State Enterprises will, as a rule, be through the medium of public corporations under the statutory control of the central Government who will assume such powers as may be necessary."⁷ The Resolution then classified the industries into three categories, i.e. those which will be in the ' Public Sector ' which included " the manufacture of arms and ammunitions, production and control of atomic energy and the ownership and management of railway transport."⁸ The second category of ' Mixed Sector ' comprised of ' coal, iron, steel, aircraft, manufacture, shipbuilding, manufacture of telephones, telegraphs and mineral oil industries.' The third category was to be of ' Public Sector '.

Jawaharlal Nehru during the debate on Industrial Policy, 1948, clearly mentioned that " In fact not because you think or I think or anybody thinks but evitably the trend of events is to make the state more and more organiser of constructive industry and not the private capitalist or any other person."

But it is quite clear that the resolution was the outcome of the socialistic approach of Nehru towards econom In his own words Nehru stated, " From the poetry of rather vague planning we have come down to the prose of this statement."⁹

The Industrial Resolution was Nehru's brain child, given birth to in order to hasten the achievement of radical and revolutionary transformation of the country into an affluent Socialistic Republic. Nehru as early as 1936 had accepted Socialism, as the only key to the India's problems. Nehru said,

"It involves vast and revolutionary changes in our political and social structure, the ending of vested interests in land and industry, as well as the feudal and the autocratic Indian states system. That means the ending of private property, except in a restricted sense, and the replacement of the present profit system by a higher ideal of cooperative service. It means ultimately a change in our instincts and habits and desires. In short it means a new civilization, radically different from the present capitalist order."¹⁰ His socialistic approach was the guiding line for the 1948 Industrial Policy Resolution and the events that followed.

On 26th day of January 1950, when the Indian constitution came into force. The two objectives of the constitution as set out in the preamble namely the one that promised to secure to all citizens JUSTICE - Social, economic and political and the other that assured EQUALITY - of status and opportunity appeared to have coloured the thinking about Public Sector in India. And being the member of constituent Assembly, Nehru's socialism guided the objectives of the constitution.

As seen earlier the setting up of Planning Commission in March 1950 was also an effort on the part of Prime Minister Nehru, the First Five Year Plan formulated under the Chairmanship of Nehru clearly mentioned a need for " a progressive widening of the Public sector and the reorientation of the Private sector to the needs of Planned economy." ¹¹In the scheme of Planning development the Public and Private sectors were viewed as complementary rather than competitive.

Later in the year 1954 Parliament accepted the " Socialistic Pattern of Society ", as the objective of economic policy. In the year 1955 at the Avadi session of the ruling Congress party, it reaffirmed its faith in " the socialistic pattern of society." And Nehru was mainly responsible for directing the Government's policy and the Congress policy along the socialist lines.

Speaking in the Parliament on May, 1956 Nehru broadly defined what the 'socialistic pattern of society ' means. He said " we mean a society in which there is equality of opportunity and the possibility for everyone to live a good life, obviously this cannot be attained unless we produce the conditions to have the standards that a good life implies. We have therefore to lay stress on equality, on the removal of disparities and it has to be remembered always that socialism

is not the spreading out of poverty. The essential thing is that there must be wealth and production."¹² Later he said " A socialist society must try to get rid of the tendency to acquisitiveness and replace it by cooperation." ¹³

To translate the concept of " the socialistic pattern of society ", into concrete terms, the Government of India adopted a new Industrial Policy Resolution in April 1956. " The adoption of the socialistic pattern of society ", the Resolution explained " as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance should be in the Public Sector." ¹⁴

The Prime consideration determining the state policy over the whole industrial field was promotion of rapid development in keeping with the overall objectives defined.

The Resolution classified industries into three categories. These categories were

- a) Those which were to be an exclusive responsibility of the state.
- b) Those which were to be progressively state owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state ; and

- c) All the remaining industries and their future development would, in general, be left to the initiative and enterprise of the private sector.

The rationale behind the deliberate policy of expansion of the public sector to promote rapid industrialization and self-reliance was that unless the state itself enters the field of production and distribution the objectives set out in the constitution viz ' EQUALITY ' and ' JUSTICE ' cannot be achieved. To protect the weaker sections, the state was also expected to control the distribution of essential commodities and by controlling the commanding heights of the economy viz. Insurance and Banking. The state can endeavour to direct investment into socially desirable channels.

Although the Public sector was to be encouraged, in accordance with the programmes formulated in successive Five Year Plan, the private sector was to be permitted to exist and supplement the efforts of the public sector within the overall framework laid down for the economy. But the Government cannot leave the Private sector to develop on its own in an unorganized manner, and therefore it will have to prepare an integrated plan in which the private sector has a well defined place.

Defining the place of private sector in the economy, Nehru said, " Forgetting the words, ' Public sector ' and ' Private Sector ' the main thing is that power, economic power should not be concentrated in private hands, that vested interest should not grow up in regard to any important matter, strategic matter or socially important matter, that there should be a dispersal of economic power and therefore avoidance of development of monopolies of any kind." ¹⁵

But this does not mean that Nehru condemned Private sector, he infact thought that private sector has an important task to fullfill, provided that it works within the confines laid down, and provided that it does not lead to the creation of monopolies and other evils that the accumulation of wealth gives rise to. Nehru wished that both private and public sector should progress. In 1956, he said " while the public sector must obviously grow and even now it has grown both absolutely and relatively the private sector is not something unimportant. It will play an important role; though gradually and ultimately it will fade away. But the public sector will control and should control the strategic points in our economy."¹⁶ This statement clearly shows that Nehru was eager to bring socialism in the country, though his socialism was Democratic Socialism.

Again speaking about the connection of Parliamentary Democracy with Private Enterprise, Nehru said " Sometimes it is said that Parliamentary democracy is inevitably combined with a system of Private enterprise. Private enterprise may be good or bad, but I do not see what Parliamentary democracy has to do with private enterprise. I do not see any connection between the two except the connection of the past habit and past thinking. In fact arguments about socialism, private enterprise and public sector, important as they are, have tended to become less and less valid. There is no country in the world where some middle way between the extremes has not been or is not being found. In the U.S.A., which is said to have, a highly developed form of modern capitalism and private enterprise, there is more public enterprise, Independent Regulatory Commission than in most other countries which apparently have a different objective and idea. In fact I would venture to say that there is going to be an increasing degree of conflict between the idea of Parliamentary Government and full fledged private enterprise." 17

After the 1956 Industrial Policy Resolution the expansion of public sector was undertaken by the Government of India. In 1955-56 there were only twenty one units of Public Undertakings of central government, In 1968-69, after

the end of Nehru era the number of units of public undertakings rose to eighty five with the total investment of Rs. 3902 Crores.¹⁸

One of the important objective which the public enterprises were expected to fullfill was rapid industrialization in the country. State enterprises were expected to activize and dynamize the base of the Indian social and economic structure in such a way that a favourable climate is created for the development of initiative, self growth, spirit of doing things, inventiveness, adaptation in each sector of the economy, keeping always the aim in view of social purpose.¹⁹

Public Enterprises were also expected to promote a rapid rise in the standard of living of the people, by exploiting the latent resources of the country, by increasing production and by generating directly and indirectly, the bulk of new industrial employment and by providing largest share of attractive new jobs for India's scarce supplies of technical and managerial talent in the service of the community.

As Nehru has rightly pointed out that " the aim should be expansion of the productive capacity of the nation in every possible way, at the same time absorbing all the labour power of the Nation in some activity or the other and preventing unemployment ... An equalization of income will not result from all this but there will be far more equitable sharing and progressive tendency towards equalization."²⁰

The Public Enterprises were expected to achieve balanced development in different parts of the country and see that there may not be serious regional disparities. Public Enterprises of the Central Government were to be set up in those regions which were underdeveloped and where total resources were not adequate.

Thus Public Enterprises were intended to create and maintain conditions for quick and self-sustained industrial expansion in order to promote the cause of social and economic equilibrium and egalitarian society, through peaceful and legitimate means, giving freedom, welfare and equality of opportunity to all. The objective of achieving growth with social justice is as relevant today as it was ever before.

Public Sectors played key role in the rapid industrialization of the country during the year 1951-70. The industrial growth rose to 7.1 percent in the late 50's and early 60's. In 1960 India became the tenth largest producer of industrial goods in the world outside of eastern Europe. Assessing the achievements of public sector Nehru said,

" My firm opinion gathered after some knowledge is that the Public Sector in India today is infinitely superior to the Private sector. I have not a shadow of doubt about it;

it is superior in competence, superior in economy, and superior in general outlook, it is developing. In spite of all the criticisms and the numerous errors and mistakes that we have made and we are making, it is more efficient and more economical. Despite occasional errors here and there, I am very much pleased at the way the Public Sector is developing in India, whether it is the Sindri, the Chittaranjan, the Machine Tools, the Telephone factory or any other project. Even if you take the Iron and Steel Plants, which are criticized, I think they are very fine achievements- Rourkela and Bhilai. I should like to say that it is a very heartening sight, how our people are working in Public Sector; they are doing very good work." ²²

The establishment of Public Enterprises gave rise to an important administrative problem namely the Management of Public Enterprises. Jawaharlal Nehru identified this problem in 1956 and said " Are we prepared for tomorrow ? If we are not, then we shall have the biggest bottleneck that you can imagine, money thrown in building huge factories, industrial concerns, state corporations and the like and not finding a proper person for running them - proper person not only because of their competence and experience, but if I may say so a certain enthusiasm for the work and a certain kinship

and spirit with the idea of the state doing it. It is no good if a person says : ' I am doing it though I basically disagree with the idea of the state running these concerns."

Therefore Nehru said " It is of high importance that we should train people, a special class of personnel for this kind of managerial appointments in state corporations, undertakings, etc. We may, of course draw upon the private sector or other sectors. But the point is that, even if we draw upon the private sector, the men from it must develop a Public conscience and not private conscience. Only then will they fit in. I think that this is one of the most important things that we have to consider."²³

Thus training and building up new type of managers was an extremely important matter, as success of the mixed economy is dependent upon this. Recent developments have clearly demonstrated that the fundamental problem of the public sector undertaking is one of manning them.

Enlargement of state's participation in industry and trade not only brought to the fore the problem of efficient managers but also of evolving suitable forms of management and organization to these enterprises in public sector which will have to ensure, the proper and efficient utilization of public

resources and an increase in the volume of contribution by state enterprise to public revenues in order to accelerate the rate of economic growth in the country. Accordingly three patterns of state enterprises have evolved in India.

The first pattern was the departmental pattern with strictly heirarchical structure whose head is a minister, answerable to the Cabinet and to the Parliament for its activities. The administration of the department is largely in the hands of the senior civil servants and financial control rests with the treasury.²⁴ The best example of this type of pattern is that of Railways.

The second pattern of Public enterprise is known as company pattern which can be regarded as a mixed enterprise, shared between state and private interests. The measure of control which Parliament exercises over these government owned and managed companies is however more indirect. Some of the important undertaking of this type which were established during Nehru's period are as following :

- 1) Nangal (now Hindustan) fertilizers and chemical Ltd.,
- 2) Heavy Electricals (P) Ltd.,
- 3) Hindustan Machine Tools (P) Ltd.
- 4) Heavy Engineering Corporations and host of other companies.

The third category of Public Enterprises is known as public corporations. A public corporation is an autonomous institution created by an Act of Parliament. Except for appropriations to provide capital or to cover losses, a public corporation is usually independently financed and it enjoys a greater degree (than departmental pattern) of autonomy from the control of legislature. A host of Public Corporations have been established in India during Nehru's period. Beginning with the Rehabilitation Finance Corporation in 1948, Damodar Valley Corporation, Industrial Finance Corporation, the Industrial Employees state Insurance Corporation, all in 1948, Indian Air Lines Corporation and Air India International both in 1953, Life Insurance Corporation in 1956 and many others.

One of the most important issue of Public Enterprises is that of Parliamentary accountability. Under the constitution Public enterprises as instruments of public policy and organ of government are clearly and ultimately accountable to Parliament. The Public Enterprises are complex undertaking and inspite of the reports, accounts and statements which they represent to Parliament, members of Parliament have found it difficult to spare time and energy to analyze the available information. As a result of which two committees have been

set up in India viz; The Estimates Committee and the Public Accounts Committee. The Estimates Committee has been charged with the function of examining in detail the annual budget estimates of the Government, while the Public Accounts Committee is responsible for scrutinizing the final accounts of the year.

Though the departmental pattern of Public Enterprises was fully accountable to the Parliament the issue of Parliamentary accountability is related mainly to the Public Corporations. Talking about the extent of Parliamentary accountability of the Public Corporations Prime Minister Nehru once said that " there should be an overall control of Parliament over autonomous and semi-autonomous corporations. But he added that the object of having autonomous corporations would to some extent be defeated if there was any interference in day to-day working."²⁵

A demand of setting up a Parliamentary Committee on Public undertakings was made since 1953. It was argued that the Public Accounts Committee and the Estimates Committee were ' overburdened with work'. In July 1957 due to considerable pressure from the members of Parliament a sub-committee was set up to examine the Public undertakings. The committee

however did not give the results, but functioned in the same manner as did the main committee.

On 10th April 1958, Prime Minister Nehru appointed a sub-committee of the Congress Party in Parliament, to consider the problem relating to state-owned corporations and companies and to suggest what supervision could appropriately be exercised by Parliament. The sub-committee endorsed the suggestion for setting up of a committee of Parliament to examine the Public undertakings.

The Government accepted the proposal of a separate committee for Public undertakings and the committee was set up in May 1964 with Shri P. Govind Menon as its Chairman. The committee was entitled to examine the reports and accounts of Public undertakings and to examine, in the context of autonomy and the efficiency of the public undertakings. The committee however started functioning after the end of Nehru era. Later Planning Commission appointed Administrative Reforms Commission to report on Public undertakings. A R C submitted its report in October 1967 with various recommendations.

With Prime Minister Nehru's initiative, Planning Commission asked A. D. Gorwala to suggest how Public Undertakings should be administered efficiently. Gorwala submitted

his report on ' The Efficient Conduct of State Enterprises ' in June 1951. In 1956 at the request of planning commission Paul H. Appleby also submitted his report entitled " Re - examination of India's Administrative system with special reference to Administration of Government's Industrial and Commercial Enterprises, 1956."

A. D. Gorwala in his report enunciated many criteria to judge the ' efficient ' working of the prospective Public Enterprises. Some of the important observations of his are as following :

i) Public Enterprises must be judged solely by the standard of efficiency, employed every unit of production of goods and services, minimum cost and requisite quality.²⁶

ii) Since the Public Enterprises are to be financed by the Government every importance should be given to have accurate estimates of the Project, Prompt follow up action and of ensuring freedom of the management to take prompt action.

iii) Since Public sector enterprises belong to the whole Nation, the Government should have infinite interest in the management and the success of these enterprises .

iv) Government should evolve suitable forms of control and direction of the management and suggested that the composition should be consistent with autonomy and there should be no control and interference from the back door.

v) Parliament must have an adequate opportunity of discussing and debating all aspects of the working of Public sector enterprise when the Government comes before Parliament for grant of Budget.

vi) Each Enterprise must have a chief executive as the 'Centre of energy', for direction and administration of management, to be assisted by appropriate managerial and staff agencies.

vii) Employees of the public enterprise must be given adequate livelihood, reasonable conditions of work and full share of opportunity to share in the making of conditions conducive to happiness.

Besides these basic observations Gorwala also suggested matters regarding internal management of Public Enterprises and suggested that there should be a central board for all Government industries throughout the countries.

Gorwala report was in the hands of the Planning Commission when it was formulating the First Five Year Plan. As seen earlier many of the Gorwala's recommendations were accepted by the planning commission while evolving the forms of enterprises and their management.

Paul Appleby in his report, submitted in 1956, dealt with the shortcomings in India's administrative setup and application of conception of autonomy to the Governments undertakings. The key to India's success lies, according to Appleby in rapid decision making and rapid, action. Hence the ' need to delegate ' has been stressed throughout the report and it was held of crucial importance to institutional expansionability.²⁷ He was of the opinion that the organization can be enlarged effectively only by widening and deepening of the hierarchy - the establishment of new subordinate levels to which more tasks, both new and old may be delegated. The need for flexibility and mobility in the services received special notice, so also the recognition of merit of top level Government generalist. The Comptroller and Auditor General has been the target of criticism in this report and has been held responsible for the widespread and paralysing unwillingness in the Government to decide and to act.²⁸

As to the working of Governments industrial and commercial enterprises Appleby said that the failure to delegate, too much doctrinaire and conventional thinking about pay differentials, lack of incentive to earn public approbation, too heavy work with directors (who have more than one enterprise on hand) have all impeded the growth of Public Enterprises.²⁹

Inspite of the basic change in Government's approach these reports even today have not lost their significance or utility. Appleby's perceptive analysis of the play of centripetal and centrifugal forces at the very heart of our body politics continues to retain its freshness and relevance to the situation. The general appropriateness of the recommendations made in above reports have not impaired and more than anything else, these reports have not lost their value as a moral tonic to the Nation.

Public sector has become part and parcel of Indian economy. It was Prime Minister Jawaharlal Nehru who achieved the best out of the worst situations obtaining within the country. Both the country's Public Administration and Public Sector have achieved enviable progress and spectacular success in founding a stable Democratic Government and a dynamic and viable socialistic economy. One of the most glaring fact of this achievement is that our national economy has learnt to stand on its own feet both in political and economic sphere.

Dr. A. V. Bhuleshkar has rightly pointed out in his remarks . " The mixed economy ushered into India since independence may be likened to a baby whose father was Jawaharlal Nehru. He was a genius with profound vision drive and dynamism coupled with intellectual power. Under his leadership economic development was launched in India, a unique experiment in economic planning under a democratic system."³⁰

Public Enterprises have become vital to the growth of our economy and the well being of our Nation. The success of this sector has inevitably connected with the overall economic growth. Hence is worthy to see how far these Public Undertakings have succeeded in their objectives.

In the initial years Public enterprises strengthened and diversified the Indian economy and gave impetus to economic growth. Rapid industrialization during the period 1951-75 was mainly due to the Public sector. The growth of investment in Public sector has helped to reduce the concentration of economic power in private hands. The share of public sector as a whole in the reproducible tangible wealth of the country which was about 15 percent in 1950-51 increased to 35 percent by the end of the third plan period. The progressive increase in the assets of the public undertakings implies increasing control of the country's economy in the public interest.

The public sector undertaking also helped in reducing the regional imbalances through a planned dispersal of the new industries. Public sector undertaking also contributed in providing employment to some extent. The number of employees in the central enterprises other than Railways, Posts and Telegraphs and Ordnance factories was about 4.7 lakhs in 1965-66.³¹

But inspite of these achievements public sector undertakings have been criticized vehemently. Its performance has fallen shor of expectations. As stated in the A R C report of 1967, several public sector projects have accumulated substantial losses. For e.g. by the end of the Third Plan period, Hindustan Steel accumulated losses of about Rs. 60 crores and the Heavy Electricals Bhopal, of about 26 crores. Further neither the quality nor in price have some Public Undertakings brought full satisfaction.

The most important failure of the public sector has been its inability to develop to the requisite extent its own resources of managerial and technical personnel and its continued dependence on foreign engineers and technicians and deputationists from Government.³² These autonomous corporations have not succeeded in solving the basic problem of organizing these enterprises in such a way as to give them flexibility

of operation in all but the highest policy matters in which only Government should have the final say. Trial and error methods which has cost a poor nation crores of rupees, has been practised while pretending to manage the enterprise.

Above all though Public Enterprises are autonomous by law in actual practice it is an extended part of the administrative ministry of the government. Even in matters of internal working of the enterprise the board which by law, is a supreme decision making body of the enterprise has to depend upon the assent, dissent or consent of the principal secretary or the minister of the administrative department. Further it has been observed that the majority of chief executives that^{have} been trusted at the helm of the affairs of the enterprises in the Public sector are from Indian Civil Service who have experience only in administering bureaucratic joints and not in democratic enterprise. And they too are appointed as per the minister's wishes and desires.

Today after 40 years of the first industrial policy, an inefficient public sector dominates the economy, which prevents an increasingly energetic and vibrant entrepreneurial class from growing and leading^{to} the revival of the economy.

The public sector is in sheer variety and size, a marvel of industrial development. It makes everything from

bread and shoes to ships and satellites. But it does so in a most inefficient way. In 1982-83, its Rs. 30,000 crore investment yielded a wipsy profit of 2 percent a level at which no private investor could survive. Yet the Public sector has survived using public funds.³³

The new Government headed by Rajiv Gandhi seems to be aware of the defects of the public sector. Radical changes have been prescribed to make the public sector more desirable. 214 State owned enterprises could be in for some breath taking changes. In the works are partial privatization (25 percent of equity may be hawked to employees and the public), a fund for redundant labour and closure of perennially losing concerns.³⁴

The list of changes proposed also includes minimising the number of Government officials on public sector company boards and giving each company a charter containing a brief statement on what the Government expects of it and the comptroller and Auditor General's role vis-a-vis public sector companies will be limited.

Above all greater operational autonomy is being envisaged for public enterprises. Further it has provided companies with freedom to take independent decisions on investments involving sums of up to Rs. 20 crore. And in some cases, chief executives have been given five year tenure,

instead of two or three year terms as had been the practice. Finally steps are being taken to restructure the Public Enterprises selection board, the agency that recruits senior public sector executives, so that top-flight talent is brought in.

If these proposed changes give the desirable results, the state enterprise may be in for trying and eventually better times. Though this process may take years. But one aspect which has to be remembered is that if 'Nehru's system of planned economic development is to succeed, it is only through the effecient role expected to be played by Public Corporations, as they are to be considered as the "Back Bone of the Indian Economy."



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