EXPANSION OF THE PUBLIC SECTOR IN INDIA
A PARADOX IN PLANNING

MAHESH PATHAK

In this article an attempt is made to indicate a paradoxical situation that has developed in India with the expansion of the public sector.

THE INDIAN STRATEGY

It was in the year 1951 that India adopted planning as a technique for rapid economic development. In order to attain this objective, a rapid expansion of the public sector was visualized keeping in view certain overriding historical and economic considerations. While assigning such an important role to the state it was recognized that, in the past, the state has, directly or indirectly, played an important role in the programmes either of economic development or of reconstruction. It is true that economic development has taken place under widely divergent conditions. However, even at the risk of some oversimplification, it can be suggested that economic development requires the fulfilment of certain basic conditions. In the absence of such pre-conditions, it is now widely realised, the efforts for development are likely to be frustrated. One of the basic principles accepted in the Indian planning has been that the State should play an important role in generating and sustaining the forces of development.

Such an approach does not, in any way, de-emphasise the importance of the private sector. Indeed, the Indian experience of the last decade and a half clearly suggests that, given the appropriate conditions, the private sector has sufficient vitality to make rapid progress. What the Indian strategy of development emphasises is the
fact that, if rapid economic development is to become a reality, the state will have to shoulder a major responsibility for the provision of social and economic overheads. It is through such an approach that rapid development has been sought to be achieved with the limited resources available to the economy.

There were one or two other considerations for accepting such a major role for the state. First, it was decided that the effort for economic development should be made within the democratic framework. Economic development, however urgent and desirable, should be consistent with the preservation of democratic values. It should, in fact, help in strengthening the roots of democracy. Second, the process of development has been usually accompanied by exploitation and increasing concentration of income, wealth and power. As far as possible, planning in India was expected to avoid such an eventuality. Thus the Indian approach to development was, in many ways, a unique experiment in the history of economic development.

In this country, as in several others, there has been a group of people pleading for greater emphasis upon free enterprise. However, a majority of the people in India accepted the role assigned to the public sector. By and large, there also seems to be unanimity regarding the spheres in which the public and the private sectors should operate. The Industrial policy statements of 1948 and 1956 have tried to define the scope for these sectors. There has been some difference of opinion regarding the interpretation or the implementation of this policy, however, on the whole, the basic principles underlying this strategy have been accepted.

Two conclusions emerge very clearly from the above discussion: (A) The Indian strategy of development recognises the need for a rapid expansion of the public sector; (B) The spheres of its operation have been, more or less, demarcated. One may or may not accept this approach to development. However, if this approach to development is accepted, what conditions are necessary for its successful implementation? What problems are likely to be faced by the public sector in its future expansion? Will the public sector deliver the goods as expected? No sensible person can claim to have definite answers to
all these questions. The process of development being what it is, influenced by so many complex and interdependent variables, makes it somewhat difficult to provide a final verdict regarding all these posers. At the same time, a careful observation of the emerging picture suggests that the expansion of public sector is creating a paradoxical situation in India. One of the important criteria for judging the success of the public sector in India will be the extent to which it can resolve this paradox.

THE PARADOX

The public sector has been expanding in India at a fairly rapid rate. This can be judged by the share of the public sector in the total investment undertaken in the Five Year Plans. The figures of total outlay during the four plans make this point very clear. The table below gives the percentages of the total outlay undertaken or likely to be undertaken in the public as well as private sectors.

<table>
<thead>
<tr>
<th>Total Outlay</th>
<th>(Percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector</strong></td>
<td><strong>Private Sector</strong></td>
</tr>
<tr>
<td>First Plan</td>
<td>46.4</td>
</tr>
<tr>
<td>Second Plan</td>
<td>54.1</td>
</tr>
<tr>
<td>Third Plan</td>
<td>60.6</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>68.8</td>
</tr>
</tbody>
</table>

*Note*: The figures exclude transfer of funds from the public sector.

The above figures clearly suggest the increasing importance of the public sector with the successive Five Year Plans. In absolute terms, the public sector outlay which was Rs. 1960 crores in the First Plan (1951-52-1955-56) is likely to range between Rs. 14500 to 15500 crores in the Fourth Plan (1966-67-1970-71). The official policy visualizes a gradual increase in the share of the public sector in the total investment activity. In the Fourth Five Year Plan, for example, out of every ten Rupees to be invested, nearly seven will be invested in the public sector. Thus the state has continued and will continue to play an important role in the investment activity.
As against the increasing investment, if we consider the problem of financial resources, the situation is quite different. There seems to have developed a large imbalance regarding the investment activity and the provision of requisite financial resources. As compared to the investment in the public sector, the total savings generated by the Government sector are meagre. Both the Reserve Bank of India and the National Council of Applied Economic Research have been providing the estimates of savings in India. Recently, the Reserve Bank has provided a revised series of estimates for a longer period. (R. B. I. Bulletin, March, 1965). While estimating the Government savings, the depreciation allowances have been calculated on the basis of original cost rather than the economically more meaningful replacement cost. However, the estimates, as they are given, may be regarded as, on the whole, satisfactory. The Reserve Bank series covers the period 1950-51 to 1962-63.

For the entire 13 year period from 1950-51 to 1962-63, Government saving formed 19.5% of the total saving. This formed only 1.5% of the national income. Apart from its contribution to the total saving pool, the performance of the Government sector can also be judged on the basis of its saving income ratio. It is from this viewpoint that the performance of the Government may not be regarded as very satisfactory. The average saving income ratio for the Government sector which was at 11.9% during the First Five Year Plan, came down to 11.2% during the Second Five Year Plan. This ratio was somewhat higher during the first two years of the Third Five Year Plan i.e. 15.6%. If we take the entire period from 1950-51 to 1962-63, the average saving income ratio comes to about 12.5%.

It can be argued that these figures are likely to under-estimate the importance of the Government in the process of development. The above estimates of savings exclude the current developmental expenditure of the Government. If the role of the Government is to be viewed in better perspective, a study of the developmental and non-developmental expenditures (apart from the current and capital expenditures) should prove fruitful. Viewed in this context the performance of the Government may appear more satisfactory. Of course, this is not to suggest
that there is no necessity or scope for larger savings in the Government sector. To conclude, while the investment activity in the public sector has been increasing rapidly, the Government sector lags behind considerably in generating the requisite savings. As a result of this the dependence of the public sector investment on the private sources of savings has been increasing. How far and how long can such a situation continue? In this context the recent experience of other countries is quite instructive.

The U. N. Economic survey, 1960, provides comparative figures regarding the saving and investment activities of the Government sector in various countries during the period 1950-59. A word of caution is in order while comparing these estimates. First, these estimates are not strictly comparable, since they suffer from several limitations in different countries. Second, the conditions as they prevail in different countries are not identical; in fact, the differences in matters such as the stage of development, or the institutional framework or the approach to development, are likely to be reflected in these estimates. Nevertheless, the estimates do provide some broad idea regarding the working of public sectors.

In the 1950's the Governments of advanced countries generated larger savings relatively to their investment requirements. In some cases this surplus (excess of saving over investment) was achieved in spite of a higher level of Government investment. For example, the level of Government investment in countries such as Finland, the Netherlands and Norway was fairly high (nearly 4 to 5% of the G. N. P.) and yet they were able to achieve substantial excess saving during the period 1950-59. The excess of saving over investment of the general Government in Finland was as high as 8.5% of the Gross National Product; the corresponding figures for the Netherlands and Norway being 2.8% and 3.7% respectively. On the otherhand, the Governments of the U. S. A. and the U. K. generated a smaller surplus (0.2% and 0.8% of the G. N. P. respectively) despite the fact that the level of Government investment was below 2.5% of the Gross National Product. The lower surplus can be attributed to the fact that the level of Government consumption in both these countries was as high as 18% of the Gross National Product, the higher level being largely due to the larger defence outlays.
Even if we consider the overall experience of underdeveloped countries during the 1950's the situation in India does not seem to be very encouraging. Among the underdeveloped countries, by and large, a high level of Government investment has been accompanied by a high level Government saving. (For example, Rhodesia and Nyasaland and Venezuela. On the otherhand, in India (along with Ceylon) though the level of Government investment was quite high (5% of the G. N. P.), the corresponding level of Government saving was significantly lower (1% of the G. N. P.).

THE ALTERNATIVES

For financing this investment, the Government can, as in the past, depend upon either imported saving or domestic private saving. The foreign capital has been playing an important role in financing the Indian economic development. Nevertheless, it is now realised that excessive dependence upon foreign capital is neither desirable nor possible. In so far as the domestic private saving is concerned, the Government has, no doubt, succeeded in evolving an appropriate institutional framework through which financial resources can be mobilized. In this context, the recent experience has shown that sources such as the Life Insurance and the Provident Funds have considerable potentiality. The mobility of savings has been increasing in the economy as a result of such developments.

While recognising the need for a greater mobility of savings and the evolution of an appropriate institutional framework, it has to be emphasised that the public sector will have to make serious efforts for correcting the imbalance that has developed between its saving and investment activities. This aspect assumes considerable significance in view of the fact that a large amount of scarce resources are being diverted towards the public sector. If the public sector fails to generate sufficient surplus, the strategy of development, as it has been envisaged, may not work with the desired level of efficiency.

One way open to the Government to boost up its saving effort is to secure a larger surplus from the public enterprises. The investment in public enterprises has been continuously increasing in India.
The total investment in public enterprises will be nearly Rs. 8450 crores by the end of the Third Five Year Plan. This investment is expected to increase substantially during the subsequent plans. In India, the need for generating such a surplus has been recognized. However, barring a few exceptions, the results achieved so far are not very satisfactory.

It is true that in the initial stages of development the public enterprises may not be in a position to generate a larger surplus. It can as well be granted that some of the enterprises should not generate surplus on welfare or promotional considerations. However, barring such exceptions, the question of generating an adequate surplus deserves a far more serious consideration than has been given to it hitherto. In the past, the surplus generated by the private enterprises has played a significant role in the industrial development of many countries. If such a process cannot operate in the case of public enterprises in India, the diversion of resources towards the public sector would involve an inefficient utilization of scarce resources. The resource allocation will to that extent, be away from the optimum.

The other important source which can contribute to the total saving pool is that of the revenue receipts. The amount of saving that the Government sector can generate will depend upon the gap between the Government receipt and the current expenditure. This gap can be widened either by increasing the receipts or by reducing the current expenditure.

In so far as the revenue receipts are concerned, taxation has remained a major source of revenue in India. The record of the Government regarding taxation was not very satisfactory in the initial years of planning. The total tax revenue of the centre and the states during the entire period of the First Five Year Plan (1951–52 to 1955–56) amounted to nearly Rs. 3583 crores. The corresponding figure for the Second Five Year Plan (1956–57 to 1960–61) was of Rs. 5600 crores. In absolute terms, this achievement appears quite impressive. However, taxation as a percentage of national income amounted to only 7.4% and 9% respectively during the periods of First and Second Five Year Plans. The tax effort has been considerably increased during the Third
Five Year Plan, especially after the Chinese aggression. The total tax revenue during the Third Five Year Plan (1961-62 to 1965-66) is expected to be around Rs. 10960 crores. Thus, in the Third Five Year Plan, the tax effort nearly doubled as compared to the Second Plan and trebled as compared to the First Five Year Plan. The Government will secure about 15% of the national income by way of taxation by the end of the Third Five Year Plan i.e. 1965-66.

Such a large diversion of resources towards the State involves the question of its appropriate utilization. If a large part of this income is utilized for current consumption, that is likely to involve a mallocation of resources in the economy. While granting the necessity for a larger current expenditure in view of the increasing responsibilities of the State, it is obvious that unless the non-developmental current expenditure is kept to the minimum, efforts for increasing resources, however large and successful, will not help in raising the saving rate of the Government sector. Will the public sector in India succeed in diverting a larger proportion of its income for capital formation? If it does, that would be a unique achievement in the history of economic development. The experience of economic development in various countries suggests that no strategy of development or an institutional framework has a sanctity of its own. In the ultimate analysis, they should and are in fact, judged by their performance. In the years ahead, the Indian strategy of development, with its emphasis upon the public sector, will be judged, among other things, by the efficiency with which the resources diverted towards the public sector are utilized.
આર્ટફાઈર નીઘા ગુલાબી વિધાન સ્વયં સ્વાધીન હોય તો મહત્વ હોવાયે આરકાંકનના વિદ્યું જેક વિશ્લેષાણાં 11 વિભાગની વિદ્યાલય સ્વાધી કરાવે છે. પણ ઈનાં પરિચયોની શેખા નંદિની બલાનમારની પહેલા ઍબાર તેની હ પાછળ 2,000 કરતા હતા. તારા પણ એક શેખામાં આ પ્રમાણ બદલાવી ગયું છે. તેથી લાખનારા આવું રેખાલિ વધારી 11 થી 12 કરતા પહેલા સબસ્ક્રિપ્શન છે. નંદિની બલાના આ ભગાવાન રેખાલિ અને ક્લાસલી કર્મકાર્યક્રમની તેની જગતિ પ્રમાણમાં સામેલ પૂરે થયો છે. 1875-76 થી 1942-43 માં સહાય હરાવવાના ઘરના અતિથિઓ સારા સાધને હાલની પણ 20 ટકા થતો. આજે સહાય હરાવવાની નો વિદ્યુંની મુખ્ય પ્રકાશિતસાધની — નાખું રેખાલિ કરે નાખું અને વિદ્યાલયની વિદ્યાલયના પ્રતિયોજના જેક વિશ્લેષાણ વિકૃતિ કરવામાં મળે છે. આજે વિદ્યાલય જેક વિશ્લેષાણ નંદિની અને ગણ લેવામાં આ સહાય ઉપર બાર મુખ્ય આધારે પહેલી વિદ્યાલયની ભૂમિકા લેવામાં આ કોર્સને મળે છે.