CHAPTER

3

EVOLUTION OF THE INDIAN ECONOMY

- ⇨ **The Background**
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*After 1757, when the East India Company took over the governance of Bengal, the British relationship with India, became exploitative, as exports to Britain and opium exports to China were financed out of the tax revenue from Bengal. There is not much evidence of significant transfer of European technology to Asia. To understand why, it is useful to scrutinise the experience of China and India, as they accounted for three-quarters of the Asian population and GDP in 1500 AD.**

* *See Angus Maddison,* ***Growth and Interaction in the World Economy: The Roots of Modernity****, The AEI Press, Washington DC, 2005, p. 60.*

THE BACKGROUND

The economic profile of India was in complete distress at the time of independence. Being a typical case of colonial economy, India was serving a purpose of development not for herself but a foreign land—the United Kingdom. Both agriculture and industry were having structural distortions while the state was playing not even a marginal role. During the half century before India became independent, the world was having accelerated development and expansion in its agriculture and industry on the shoulders of the active role being played by the states, with the same happening in the UK itself.[1]

There was not only the unilateral transfer of investible capital to Britain by the colonial state (the 'drain of wealth'), but the unequal exchange was day by day crippling India's commerce, trade and the thriving handloom industry, too. The colonial state practiced policies which were great impediments in the process of development in the country. Throughout the colonial rule, the economic vision that the state had was to increase India's capacity to export primary products, and increase the purchase/import of the British manufactured goods and raise revenues to meet the drain of capital as well as meet the revenue requirements of the imperial defence.[2]

The social sector was a neglected area for the British rulers which had a negative impact on the production and productivity of the economy. India remained a continent of illiterate peasants under British rule. At the time of Independence, its literacy was only 17 per cent with 32.5 years of life expectancy at birth.[3]

Industrialisation of India was also neglected by the colonisers—the infrastructure was not built to industrialise India but to exploit its raw materials. Indian capitalists who did emerge were highly dependent on British commercial capital and many sectors of the industry were dominated by British firms, e.g., shipping, banking, insurance, coal, plantation crops and jute.[4]

The pre-independence period was altogether a period of near stagnation showing almost no change in the structure of production or in the levels of productivity—the aggregate real output during the first half of the 20th century estimated at less than 2 per cent a year or less.[5]

The overall economic performance of India under the British rule was very low. According to economic statistian Angus Maddison, there was no per capita growth in India from 1600 to 1870—per capita growth was a meagre 0.2 per cent from 1870 to 1947, compared with 1 per cent in the UK.[6] The per capita incomes of Rs. 18 for 1899 and Rs. 39.5 for 1895 in current prices say the true story of the abject poverty Indian masses were faced with.[7] The repeated famines and disease epidemics during the second half of the nineteenth century and the first half of the twentieth century show the greatest socio-economic irresponsibility and neglect of the British government in India at

1. Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, ***India After Independence,*** Penguin Books, N. Delhi, p. 341.
2. Bipan Chandra, **'The Colonial Legacy'** in Bimal Jalan (Ed.) ***The Indian Economy: Problems and Prospects***, Penguin Books, N. Delhi, Revised Edition, 2004, p. 5.
3. B.R. Tomlinson, ***The Economy of Modern India 1860–1970,*** Cambridge University Press, Cambridge, 1993, p. 7.
4. Angus Maddison, ***The World Economy: A Millennial Perspective,*** OECD, Paris, 2001, p. 116.
5. A. Vaidyanathan, 'The Indian Economy Since Independence (1947–90)' in Dharma Kumar (ed.), ***The Cambridge Economic History of India,*** Vol.II, Cambridge University Press, Cambridge, England, Expanded Edition, 2005, p. 947.
6. Angus Maddison, **The World Economy** p. 116.
7. The respective data of Digby and Atkinson have been quoted by Sumit Sarkar, ***Modern India 1885–1947,*** Macmillan, N. Delhi, 1983, p. 42.

one hand and the wretchedness of the masses at the other.[8]

The political leaders and the industrialists both were very much aware and conscious about the economic inheritance once India became independent. Somehow, these dominant lot of people who were going to lay down the foundation stones of the independent Indian economy were almost having consensual[9] view, even before the independence, on many major strategic issues:

(i) State/governments should be given a direct responsibility for development.
(ii) An ambitious and vital role to be assigned to the public sector.
(iii) Necessity for the development of heavy industries.
(iv) Discouragement to foreign investment.
(v) The need for economic planning.

Once India became independent, it was a real challenge for the government of the time to go for a systematic organisation of the economy. This was a task full of every kind of challenges and hurdles as the economy had hardly anything optimistic. The need of delivering growth and development was in huge demand in front of the political leadership as the country was riding on the promises and vibes of the nationalist fervour. It was not a simple task.

Now the decisions which were to be taken by the political leadership of the time were going to shape the very future of India. Many important and strategic decisions were taken only by 1956 which shaped Indian economic journey till date—undoubtedly they heavily dominated the pre-reform period, but the post-reform period is also not completely free of their impact. To understand the nature and scope of the Indian economy in current times it is not only useful but essential to go through the facts, reasons and the delicacies which made the economy evolve and unfold the way it evolved and unfolded. A brief overview follows.

PRIME MOVING FORCE—AGRICULTURE VS. INDUSTRY

A topical issue of the debate regarding India has been the choice for the sector which will lead the process of development. The government of the time opted for industry to be India's prime moving force of the economy. Whether India should have gone for agriculture as its prime moving force for better prospects of development, is a highly debatable issue even today among experts.

Every economy has to go for its development through exploitation of its natural and human resources. There are priorities of objectives set by the economy which is attempted to be realised in a proper time frame. The availability and the non-availability of resources (natural as well as human) are not the only issues which make an economy decide to declare whether it opts for agriculture or industry as its prime moving force. There are many more socio-political compulsions and objectives which play their roles in such decision making.

The political leadership selected industry as the leading force of the economy after Independence—this was already decided by the dominant group of the nationalist leaders way back in the mid-1930s when they felt the need for economic planning in India before setting up the National Planning

8. Recounted vividly by *Mike Davis* in his ***Late Victorian Holocaust: El Nino Famines and the Making of the Third World,*** (Verso, London & New York, 2001, p. 162) where he links the monsoon failures in India to El Nino - Southern Oscillation (ENSO) climate fluctuations in the western Pacific—the monsoon failure leading to drought and hunger one year and then to a severe malaria epidemic the next when the rains reappeared and a burst of mosquito abundance afflicted a weakened population.
9. Bipan Chandra et. al., ***India's Struggle for Independence,*** p. 15.

Committee (1938). Given the available resource base it seems an illogical decision as India lacked all those pre-requisites which could suggest the declaration of industry as its prime mover:

(i) Almost no presence of infrastructure sector, i.e., power, transportation and communication.
(ii) Negligible presence of the infrastructure industries, i.e., iron and steel, cement, coal, crude oil, oil refining and electricity.
(iii) Lack of investible capital—be the case of either the government or the private sector.
(iv) Absence of required technology to support the process of industrialisation and no research and development.
(v) Lack of skilled manpower.
(vi) Absence of entrepreneurship among the people.
(vii) Absence of the market for industrial goods.
(viii) Many other socio-psychological factors which acted as negative forces for the proper industrialisation of the economy.

The obvious choice for India would have been the agriculture sector as the moving force of the economy because:

(i) The country was having the natural resource of fertile land which was fit for cultivation.
(ii) Human capital did not require any kind of higher training.

By only organising our land ownership, irrigation and other inputs to agriculture, India could have gone for better prospects of development. Once there was no crises of food, shelter, basic healthcare, etc., to the masses, one goal of development could have been realised—a general welfare of the people. Once the masses were able to achieve a level of purchasing capacity, India could have gone for the expansion of industries. India was capable of generating as much surplus income for its masses as was required by the emerging industries for a market success. The People's Republic of China did the same in 1949—taking a realistic evaluation of its resources, it declared agriculture as its prime moving force for the economy. The surplus generated out of agriculture was suitably invested to develop the pre-requisites for industrialisation and the country went for it in the 1970s.

The emergence of industrial China was so vibrant that its impact was felt in the so-called highly developed and industrialised economies of the world—the industrial homework of China catapulted it into a giant.

Was the political leadership of Independent India not able to analyse the realities as we did above and conclude that agriculture should have been the moving force of the economy in place of industry? Is it possible that Pandit Nehru in command could have missed the rational analysis of the Indian realities, a giant among the Asian visionaries of the time (Mao was still to emerge on the international scene)? How India could have not opted for agriculture as its prime moving force whose leadership had fought the nationalist movement on the Gandhian fervour of villages, agriculture and rural development. Even if Gandhi was not in the government there were many devout Gandhians in it and no one should doubt that the main internal force which vibrated throughout the governmental decisions were nothing but 'Gandhian Socialism'. There were many decisions which were taken under the influence of the main political force of the times, still some very vital ones were influenced by the visionary hunches of the political leadership mainly being J. L. Nehru. This is why the economic thinking of independent India is considered and said to be nurtured by the Nehruvian Economics still today. If we go through the major literatures on the Indian economic history, views of the critiques of the time and the contemporary experts, we may be able to feel the answer as to why India went for industry as its prime moving force in place of an obvious and logical choice of agriculture (we should not be happy to know that even today this is a highly debatable issue among experts):

(i) Looking at the resources available, agriculture would have been the obvious choice as the prime moving force (PMF) of the economy (i.e., cultivable land and the manpower). But as Indian agriculture was using the traditional tools and technology its modernisation as well as future mechanisation (latter to some extent) would have been blocked due to the lack of indigenous industrial support. If we had gone for import this would have required enough foreign reserves and a natural dependence on foreign countries. By choosing industry as the PMF we were going to industrialise the economy as well as modernise our traditional mode of farming.

(ii) The dominant ideology around the world as well as in the WB and the IMF was in favour of industrialisation as a means to faster growth which could be translated into faster development. These international bodies were supporting the member countries from every point of view to industrialise. Same was the case with the developed economies. It was possible not only to industrialise faster on these supports but a hope for emerging as an industrial exporter was also there. Such kind of supports were not being offered by them to an economy going to opt for agriculture as its PMF. Basically, going for the agriculture sector was considered a symbol of 'backwardness' at that time also. The political leadership wanted to carry India ahead, and not in the backward direction. It was only in the 1990s that the world and the WB/IMF changed its opinion regarding the agriculture sector—and emphasis on this sector by an economy was no more considered a sign of backwardness.

(iii) The Second World War has proved the supremacy of defence power. For defence a country needs not only the support of science and technology but also an industrial base. India also required a powerful defence base for herself as a deterrent force. By opting for industries as her PMF the economy tried to solve many challenges simultaneously—first, industry will give faster growth, second, agriculture will be modernised in time and third the economy will be able to develop its own defence force. Since the economy had also opted for scientific and technological preparedness, its achievements were to sustain the pace of modernising world out there (this seems taking place in India to a great extent.).

(iv) Even before Independence, there was a socio-economic consensus among social scientists along with the nationalist leaders, that India needed a boost towards social change as the country lagged behind in the areas of modernisation. A break from the traditional and outmoded way of life and cultivation of a scientific outlook was a must for the country. Such feelings also made the political leadership of the time go in favour of wholehearted industrialisation.

(v) By the time India got her independence the might of industrialisation was already proven and there were no doubts regarding its efficacy.

Given above are some of the important reasons that worked to make Indian political leadership go in favour of industry as the economy's prime moving force. Probably, the resource-related and temperamental realities of India got marginalised in hopes and wishes of a future industrialised and developed India. It is yet impossible to conclude whether the economy has completely failed to do so. Experts have divided opinions on this issue.

The last decade of the 20th century (i.e., the decade of the 1990s) saw major changes taking place in the world economic idea about the agriculture sector. It was no more a symbol of backwardness for an economy if it had started emphasising its agriculture sector as the engine of growth and development. China had proved to the world that how agriculture could be made the prime moving force of an economy and generate internal as well as external strength to emerge as an industrial economy. In the wake of ongoing reform process India was introspecting almost all economic policies it followed since Independence. It was time for the agriculture sector to have the prime attention. A major shift[10] took place in the Indian economic thinking when the government announced in 2002 that from now onwards, in place of industry, **agriculture will be the prime moving force (PMF)** of the economy. This was a policy shift of historic importance which was announced by the highest economic think tank of the country—the Planning Commission—as the economy commenced the Tenth Plan (2002–07). As per the Planning Commission[11] such a policy shift will solve the three major challenges faced by the economy:

(i) Economy will be able to achieve food security with the increase in agricultural production. Besides, the agricultural surplus will generate exports in the globalising world economy benefiting out of the WTO regime.

(ii) The challenge of poverty alleviation will be solved to a great extent as the emphasis will make agriculture a higher income-generating occupation and induce growth in the rural economy by generating more gainful employment.

(iii) The situation of India as an example of 'market failure' will cease.[12]

Though the world outlook towards agriculture sector had changed by the early 1990s, the Government of India announced the policy shift more than one decade later. There is now a consensus among experts, policymakers and the governments alike that for development to take place in India it is necessary to strengthen the sector on which the masses depend for their income and livelihood. More than 65 per cent of the Indian population depends on agriculture and allied activities, while only 18.5 per cent of the gross domestic product (GDP) comes from the sector.[13] It means that above 65 per cent of Indian population shares just 18.5 per cent of the gross

10. The Government of India had shown such an intention in two regular Union Budgets (i.e., the fiscals 2000–01 and 2001–02) but has not announced the shift officially.

11. Planning Commission, **Tenth Five Year Plan (2002–07),** GoI, N. Delhi, 2002.

12. It has been argued by economists time and again that India is a typical example of 'market failure'. Market failure is a situation when there are goods and services in an economy and its requirement too but due to lack of purchasing power the requirements of the people are not translated into demand. Whatever industrial goods and services India had been able to produce they had stagnated or stunted sales in the market as the largest section of the consumers earned their livelihood from the agriculture sector which is unable to create a purchasing power to the levels required by the market. As agricultural activities will become more gainful and profitable, the masses depending on it will have the level of purchasing capacity to purchase the industrial goods and services from the market. Thus, the Indian market won't fail. The view has been articulated by *Amartya Sen* and *Jean Dreze* in their monograph titled ***India: Economic Development and Social Opportunity,*** United Nations University, 1996.

13. **Central Statistical Organisation,** GoI, N. Delhi, Feb. 2007.

income generated by the economy. The rest of the population that does not depend on agriculture (i.e., below 35 per cent) share 81.5 per cent the gross income generated by the economy. The gap of income shows the lower purchasing power of the people involved in agricultural activities—which is more than two-third of the total population. How market can succeed in such a situation and what to ask of the market economy. As the economy was more in favour of a market economy, the situation of market failure needed to be arrested The income of the population dependent on the agriculture sector needed strengthening. Though the effects of the policy shift are not clearly visible yet, we may glance at the major policies which are intended towards strengthening of the agriculture sector:

(i) **New Agriculture Policy, 2000:** The policy mainly intends to convert agriculture into the category of industry so that the population dependent on it could earn income and profit out of agricultural activities with the same pace and mode as the industry has enabled the population dependent on industrial activities.

(ii) **National Agricultural Insurance Scheme, 1999–00:** The new insurance scheme launched for agriculture intends to provide insurance coverage to all agricultural activities right from seeds, sowing, harvesting to marketing risks—a necessary support to which the industry had access but agriculture had no reach.

(iii) **Exim Policy, 2002–07:** The Export Import Policy, 2002–07 for the first time accepted at the policy level the long-standing opinion of the experts—that a one per cent increase of the agricultural products in India's exports supplies additional Rs. 8,500 crores to the agricultural sector. Many policy initiatives were taken to increase the share of agriculture in the total export of the economy.

(iv) **Second Green Revolution:** A major programme to boost agricultural production with the sustainable approach was launched in 2004 with an initial corpus of Rs. 50,000 crore.

(v) **Bharat Nirman:** A major programme to focus on the agricultural and rural infrastructure (totalling six items) was launched by the government in 2005 with the ultimate intention of strengthening rural economy.

(vi) **Others:** Similarly, many time-bound programmes and schemes have been launched since 2002 which focus on the agriculture sector and the rural areas from different angles—education, electricity, wage, as well as self-employment, healthcare, communication, etc.

Looking at the size of the population dependent upon the agriculture sector, comparatively longer government apathy to the agricultural realities and the late start of the reform process in it make things very tough to effect visible changes in the sector in a short time span. It also requires comparatively longer period of time. We will then be able to see the visible results of the policy shift as well as the results of the economic reforms in the agriculture sector provided there remains a continued political commitment to the cause. One positive development of the last decade has been that India has been able to reach a silent political consensus on some of the very important aspects of development (for example—on the process of economic reforms, foreign investment, deregulation, social justice, emphasis on agricuture, priority to the social sector, etc.), which gives us hope that the economy will be able to take care of the agriculture sector in due course and more accelerated growth and development can be achieved.

PLANNED AND MIXED ECONOMY

Independent India was declared to be a planned and a mixed economy. India needed national planning, it was decided by the political leadership almost a decade before Independence.[14] India was not only facing regional disparities at the level of resources but inter-regional disparities were also prevalent, since centuries. Mass poverty could only be remedied once the government started the process of economic planning. Economic planning was thus considered an established tool of doing away with such disparities.

Basically, it was the abject poverty of the masses which made the government go for planning so that it could play an active role in the allocation of resources and mobilise them for an equitable growth and development. Though India was constitutionally declared a federation of states, in the process of planning, the authority of regulation, directing and undertaking economic activities got more and more centralised in the Union government.[15]

India's decision for a planned economy was also moulded by some contemporary experiences in the world.[16] *Firstly,* the Great Depression of 1929 and the reconstruction challenges after the Second World War had made experts to conclude in favour of a state intervention in the economy (opposite to the contemporary idea of 'non-interference' as proposed by Adam Smith). *Secondly,* it was the same time that the command economies (i.e., state economies) of the Soviet Union and the East European countries started making news about their faster economic growth. In the 1950s and 1960s, the dominant view among the policymakers around the world was in favour of an active role of the state in the economy. *Thirdly,* a dominant role for the state in the economy to neutralise market failure situations (as happened during the period of the Great Depression when demand fell down to the lowest levels) was gaining ground around the world. For many newly independent developing nations, economic planning was therefore an obvious choice. Economic planning was considered to help states to mobilise resources to realise the prioritised objectives in a well-defined time frame.

Once the political leadership had decided in favour of a planned economy for India and a major role for the state in the economy, they needed to clarify about the organisational nature of the economy—whether it was to be a state economy or a mixed economy—because planning was not possible in a free market economy (i.e., capitalistic economy). The idea of planning in India was inspired from the Soviet planning which was a command economy and did not suit the requirements of democratic India which was till now a privately owned economy.[17] The dominant force behind planning in India, at least after Independence, was Nehru himself who had strong socialist leanings. He thought it very urgent to define the role of the state in the economy, which was going to be at times similar to the state in the Soviet Union and at times completely dissimilar to it. Though there was an example of a capitalistic-democratic system going for planning, France by that time (1947), it had little experience to offer the Indian policymakers (France had gone

14. **National Planning Committee,** GoI, N. Delhi, 1949.
15. Bimal Jalan, ***India's Economic Policy,*** Penguin Books, N. Delhi, 1993, p. 2.
16. C. Rangarajan, ***Perspectives on Indian Economy,*** UBSPD, N. Delhi, 2004, p. 96.
17. Rakesh Mohan, 'Industrial Policy and Control' in Bimal Jalan (Ed.) ***The Indian Economy: Problems and Prospects,*** p. 101.

for a mixed economy by 1944–45). With the basic urge to accelerate the process of economic growth, the planners went to define the respective roles of the state and the market, in the very first Plan itself. The following lines look refreshingly ahead of the times and crystal-clear about the scope of the government's role in the economy vis-á-vis the private sector.

"This brings us to the problem of the techniques of planning. A possible approach to the problem is, as mentioned earlier, through a more or less complete nationalisation of the means of production and extensive system of government controls on the allocation of resources and on the distribution of the national product. Judged purely as a technique of planning, this may appear a promising line of action. But, viewed against the background of the objectives outlined above, and in the light of practical considerations, such an expansion of the public sector is, at the present stage, neither necessary nor desirable. Planning in a democratic set-up implies the minimum use of compulsion or coercion for bringing about a realignment of productive forces. The resources available to the public sector have, at this stage, to be utilised for investment along new lines rather than in acquisition of existing productive capacity. Public ownership of the means of production may be necessary in certain cases; public regulation and control in certain others. The private sector has, however, to continue to play an important part in production as well as in distribution. Planning under recent conditions thus means, in practice, an economy guided and directed by the state and operated partly through direct state action and partly through private initiative and effort."[18] The above-quoted lines are imaginatively ahead of the times. It will be suitable to note here that as 1950s and 1960s made the world experts favour state intervention in the economy, the ***East Asian Miracle (WB)***[19] of the coming three decades was going to define the very limits of such an intervention. The East Asian economies were able to sustain a high growth rate over three decades and had revived again the discussions regarding the respective roles of the state and the market as well as the nature of the state's role in the economy. The kind of conclusions drawn were very similar to the view presented in India's First Plan itself which was presented by the World Bank in 1993.

The real nature of the Indian brand of mixed economy, though beautifully outlined in 1951 itself, went through a process of detailed evolution in the decade of the 1950s.[20] By the end of the 1950s, the concept of the mixed economy was almost buried and rose from hibernation only by mid-1980s and finally early in 1990s, in the wake of the process of economic reforms.

The state–market mix (i.e., the public sector and private sector) defined for India though, clearly delineated the nature of mixed economy, the vision was obviously blurred in the coming decades as part of economic mismanagement. The imagined mixed economy of India will become more clear in the next sub-topic.

EMPHASIS ON THE PUBLIC SECTOR

The state was to be given an active and dominant role in the economy, it was very much decided by the time India became independent. There were no doubts about it in the minds of the people who formed the dominant political force at the time. Naturally, there was going to be a giant structure of the government-controlled enterprises to be known as the public sector undertakings (PSUs). Criticism aside, there were at that time, a strong logic behind the glorification of PSUs. Some of the reasons for heavy investments in the PSUs were

18. Planning Commission, ***The First Five Year Plan: A Draft Outline,*** GoI, N. Delhi, 1951.
19. ***The East Asian Miracle,*** World Bank, Washington D.C, 1993.
20. We see the process of evolution specially in the industrial policies, India pursued since 1948 to 1956.

purely natural while others were consequential in nature. There were certain highly commendable objectives set for them, some other goals would go on to serve the very soul of the mixed economy. We must go for an impartial and rational analysis of the matter, in the midst of all the criticism of PSUs and the contemporary moves of privatising them, to understand their roles in the Indian economy. We may understand the reasons behind the ambitious expansion of the PSUs in the face of the following major requirements.

1. Infrastructural Needs

Every economy whether it is agrarian, industrial or post-industrial, needs suitable levels of infrastructure such as—power, transportation and communication. Without their healthy presence and expansion, no economy can grow, and develop.

At the eve of Independence, India was having almost no presence of these three basic requirements. There was just a beginning in the area of railways, and post and telegraph. Power was restricted to selective homes of government and the princely states. [It means, even if India had opted for agriculture as its prime moving force (PMF), it had to develop the infrastructure sector.]

These sectors require too much capital investment as well as heavy enginering and technological support for their development. Expansion of the infrastructure sector was considered not possible by the private sector of the time as they could possibly not manage the following components:

(i) heavy investment (in domestic as well as foreign currencies),
(ii) technology,
(iii) skilled manpower, and
(iv) entrepreneurship

Even if these inputs were available to the private sector it was not feasible for them as there was no market for such infrastructure. These infrastructures were essential for the economy, but they needed either subsidised or almost free supply as the masses lacked the market-determined purchasing capacity. Under these typical condition, it was only the government which could have shouldered the responsibility. The government could have managed not only the inputs required for the development of the sector but could also supply and distribute them to the needy areas and the consumers for the proper growth of the economy. There were no alternatives and that is why the infrastructure sector in India has such a dominant state presence that many areas have obvious government monopolies—as in power, railways, aviation, telecommnication, etc.

2. Industrial Needs

India had opted for the industrial sector as its prime moving force, as we saw in the earlier pages. Now there were some areas of industries which the government had to invest in, due to several compulsive reasons. For industrialisation and its success, every economy needs the healthy presence of some 'basic industries', which are also known as the 'infrastructure industries'.[21] There are six basic industries which every industrialising economy requires, namely—

(i) Iron and Steel
(ii) Cement
(iii) Coal
(iv) Crude oil
(v) Oil refining and
(vi) Electricity

[*Note:* At present, there are eight ***Core Industries*** in India (with the Base: 2004–05=100), six existing *'basic/infrastructure industries'* with two

21. 'Infrastructure sector' and 'infrastructure industries' are quite different things.

new additions, i.e., *Natural Gas* and *Fertilizer*. Core industries together have a combined weight of 37.90 per cent in the Index of Industrial Production (IIP). Individual percentages of them are: Coal (weight: 4.38 per cent); Crude Oil (weight: 5.22 per cent); Natural Gas (weight: 1.71 per cent); Petroleum refinery (weight: 5.94 per cent); Fertilizer (weight: 1.25 per cent); Steel (weight: 6.68 per cent); Cement (weight: 2.41 per cent); and Electricity (weight: 10.32 per cent).]

Similar to the infrastructure sector, these basic industries also require high level of capital, technology, skilled manpower and articulation in entrepreneurship which was again considered not feasible for the private sector of the time to manage. Even if the private sector supplied goods from the 'basic industries', they might not be able to sell their products in the market due to the lower purchasing power of the consumers. Perhaps, that is why again the responsibility of developing the basic industries was taken up by the government.

Out of the six basic industries the cement sector was having some strength in the private and in iron and steel sector a lone private company was present. The coal sector was controlled by the private sector and crude oil and refining was just a beginning by them. The level of demands of an industrialising India was never to be met by the existing strength of the basic industries. Neither the required level of expansion in them was possible by the existing number of private players. With no choice left, the government decided to play the main role in them. In many of them we as a result, see a natural monopoly for the PSUs, again.

3. Employment Generation

The PSUs were also seen as an important part of the employment generation strategy. A government in a democratic set up cannot think only economics, but it has to realise the socio-political dimensions of the nation too. The country was faced with the serious problem of poverty and the workforce was increasing at a fast rate. Giving employment to the poor people is time-tested tool of poverty alleviation. The PSUs were thought to create enough jobs for the employable workforce of the economy.

There was also felt an immediacy for a social change in the country. The poverty of a greater section of the country was somehow connected to the age-old caste system which propitiated the stronghold of the upper castes on the ownership of land which was the only means of income and livelihood for almost above 80 per cent of the population. Along with the ambitious policy of land reforms, the government had decided to provide reservations to the weaker sections of the society in government jobs. The upcoming PSUs were supposed to put such jobs at the disposal of the goverment which could have been distributed along the decided reservation policy—such reservations were considered an economic tool for social change.

In the highly capital-intensive sectors in which the government companies were going to enter, managing investible funds to set them up was not going to be an easy task. The government did manage the funds with sources like taxation, internal and external borrowing and even taking last refuge in the printing of fresh currencies. The government went to justify the high taxation and heavy public indebtness in supplying employment to the Indian employable population.

The PSUs were considered by the government as the focus of the 'trickle-down effect'. The government did everything to set up and run the PSUs as the benefits were supposed to percolate to the masses, finally reinforcing growth and development in the country. Employment in the PSUs was seen as the effort of the trickle down theory, simply said. At a point of time, Nehru even mentioned the PSUs as the 'temples of modern India'. The government went to commit even a job in every household via the PSUs—without calculating the dimensions of the future labour force in the country and the required resources to create jobs at such a high scale. But the government went on creating new PSUs without analysing the fiscal repercussions—moreover believing them to be the real engine of equitable growth. The employment generation responsibility of the PSUs was extended to such an extent by the government that most of them had over-supply of the labour force which started draining its profits on account of the salaries, wages, pensions and provident funds (the latter two had late financial impact).

4. Profit and Development of the Social Sector

The investment to be made by the government in PSUs was in the nature of asset creation and these entities were to be involved in production activities. It was natural for the government to gain control over the profits and dividends accruing from them. The goods and services the PSUs were to produce and sell were going to provide disposable income to the government. The government had a conscious policy of spending the income generated by the PSUs. They were to be used in the supply of the 'social goods' or what is called the 'public goods'. And thus, India was to have a developed social sector. By social goods the government meant the universal supply of certain goods and services to the Indian people. These included education, healthcare, nutrition, drinking water, social security, etc., in India. It means that the PSUs were also visioned as the revenue generators for the development of the social sector. Due to many reasons the PSUs would not be able to generate as much profit as was required for the healthy development of the social sector. This eventually hampered the availability of public goods in the country. In place of giving profits back to the government, a large number of the PSUs started incurring huge losses and required budgetary supports as a regular phenomenon.

5. Rise of the Private Sector

As the PSUs will take the responsibility of supplying the infrastructure and the basic industries to the economy, a base for the rise of private sector industries will be built. With the rise of the private sector industries in the country, the process of industrialisation will be completed. Out of the many roles the PSUs were supposed to play this was the most far-sighted. Whatever happened to the different roles the PSUs were assigned is a totally different matter to which we will return while discussing the industrial scenario in the country. Here we have analysed why the government in India after Independence went for such an ambitious plan of expansion of the public sector.

Besides, the PSUs were aimed at many other connected areas of developmental concerns, such as, self-sufficiency in production, balanced regional development, spread of small and ancillary industries, low and stable prices, and long-term equilibrium in balance of payment. Over time the PSUs have played a critical role in promoting the growth and development of the country.[22]

22. Sumit Bose and Sharat Kumar, 'Public-sector Enterprises', in Kaushik Basu and Annemie Maertens (Eds.) ***The New Oxford Companion to Economics in India,*** Vol. II, Oxford University Press, New Delhi, 2012, p. 578–583.