UNIT 6  PUBLIC SECTOR IN INDIA

Objectives

The main purpose of this unit is to help you:

- understand the nature and importance of public sector in India
- understand the objectives of public sector
- analyse the structure and growth of public sector, and
- understand the functioning and performance of public sector.

Structure

6.1 Introduction
6.2 Objectives and Scope of Public Sector
6.3 Structure and Growth of Public Sector
6.4 Working of Public Sector
6.5 Performance of Public Sector
6.6 Summary
6.7 Key Words
6.8 Self Assessment Questions
6.9 Further Readings

6.1 INTRODUCTION

In India’s mixed economy, public sector occupies a pivotal position. Public enterprises are expected to make significant contribution to growth in national income, creation of employment opportunities, reduction in income disparities among regions and groups, earning of foreign exchange and generation of surpluses for financing development efforts. Over a period of time, in the post-independence period, the size of the public sector has grown rapidly, and the number of public enterprises as well as the areas of their operation have recorded significant progress. Public sector was expected to achieve “commanding heights” in the economy and it did so over a period of forty years. However the quantitative growth of the public sector was not matched by qualitative performance. Many public sector enterprises were incurring losses. The performance of public sector in general was so discouraging that as part of New Economic Policy announced by the Indian government in 1991 the scope and role of the public sector was sought to be reduced drastically. An understanding and analysis of economic environment of business in India is not complete without an understanding and objective assessment of our public enterprises. This unit attempts to explain the objectives of India’s public sector. It analyses the various aspects of structure and growth of public sector, and evaluates the performance of public sector. Finally, it discusses the shortcomings of public sector enterprises.

6.2 OBJECTIVES AND SCOPE OF PUBLIC SECTOR

The public sector exists in contrast to the private sector. Any activity owned, controlled and managed by the government (Central, State and Local) comes under public sector. After the attainment of independence and the advent of planning, there has been a rapid expansion of the scope of the public sector.
The passage of Industrial Policy Resolution of 1956 and the adoption of the socialist pattern of society as our national goal further led to a deliberate enlargement of the role of public sector. From the standpoint of organization, structure and management, there are four types of public sector enterprises in India:

1. Those which are departmentally managed (departmental enterprises such as the Indian Railways).
2. Those which are managed by independent boards.
3. Those which are run as public corporations (which come into existence by Acts of Parliament).
4. Those which are organised as companies (registered under the Companies Act).

The objectives of the public sector, can be briefly described as:

1. to accelerate the economic growth and industrialisation of the country by creating the necessary infrastructure for development;
2. to promote fair distribution of income and wealth, interpersonal as well as inter-regional;
3. to promote balanced regional development;
4. to promote the growth of strategic defence-oriented industries;
5. to assist the development of small and ancillary industries;
6. to create employment opportunities;
7. to achieve socialist pattern of society;
8. to avoid and circumvent the limitations and abuses of the private sector; and
9. to generate forces of economic and technological self-reliance.

Let us elaborate these objectives of the public sector which inspired its rapid growth. In a developing country like India, some industries need to be brought within public ownership and control in order to achieve rapid economic growth. Public enterprises became an essential part of the economic development programme in India. The justification for public enterprises in India is based on the fact that the rate of economic development planned by the government is much higher than can be achieved by the private sector alone. In other words, the public sector is essential to achieve the objective of accelerated rate of economic development.

Heavy industry strategy initiated during the Second Plan period called for a pattern of resource allocation which necessitated expansion of the public sector. The Public sector proved to be a means for rapid development of heavy and basic industries.

The objective of economic equity, inter-regional and inter-personal, also promoted rapid growth of public sector. The anxiety for balanced regional development found a means for it in public sector growth. Public enterprises of the Central government are to be set up in those regions which are underdeveloped and where local resources are not adequate. A revealing example is the setting up of the three public sector steel plants at Bhilai, Rourkela and Durgapur which were meant to help industrialise the regions surrounding the projects.

Funds for financing development can be generated by way of surpluses from public enterprises. The surplus of government enterprises can be reinvested in the same industries or can be used for the establishment and expansion of other industries. No doubt, private sector industries can also plough back whole or substantial amounts of their profits for expansion.
However, profits in private enterprises are declared as dividends among shareholders. This would only create income inequalities among people. But surpluses of public sector enterprises can be directly used for capital formation to promote the objective of accelerated economic development.

Employment growth objective as well as the objective of promoting small and ancillary industries to achieve several other objectives can be achieved through the means of public sector expansion. The objective of earning/saving foreign exchange is also fulfilled by the growth of the public sector.

Some public sector enterprises were started specifically to produce goods which were formerly imported in order to save foreign exchange. The entry of Hindustan Antibiotics Limited and the Indian Drugs and Pharmaceuticals Limited into the manufacture of drugs and pharmaceuticals were meant to remove the monopolistic stranglehold of foreign enterprises in the field and have helped India to save foreign exchange used for importing these items. Likewise, the Oil and Natural Gas Commission and the Indian Oil Corporation are public enterprises which attempt directly to increase self-reliance of the country and reduce our dependence on imports. The Bharat Electronics Limited has saved foreign exchange by way of import substitution.

Most of the public sector enterprises were started keeping in mind the requirements of the Indian economy in the fields of production and distribution. However, some public enterprises have done much to promote Indian exports. The State Trading Corporation have done a good job of export promotion in all parts of the world. Considerable success has been achieved in pushing up the exports of Indian handicrafts, light engineering goods and many other new items of exports. Hindustan Steel Ltd., the Bharat Electronics Limited, the Hindustan Machine Tools, etc. are some of the public enterprises which are exporting increasing proportion of their output and earning foreign exchange.

Public sector growth, it was believed, contributes importantly to the achievement of the objective of socialistic pattern of society. The socialistic pattern of society calls for extension of public sector in two ways. Firstly, production will have to be centrally planned as regards the type of goods to be produced, the volume of output and the timing of their production. It may be comparatively easy to achieve this through public sector rather than through private sector. It is worth quoting from the Second Five Year Plan in this connection: “The adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid development require that all industries of basic and strategic importance, or in the nature of public utility services should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector.”

Secondly, one of the objectives under the Directive Principles of State Policy in our constitution is to bring about reduction in the inequalities of income and wealth and to establish an egalitarian society. The Five Years Plans have taken up this as a major objective. The public sector may be used as an instrument for achieving this objective for the following reasons: 1. The surpluses of public enterprises will go to the government unlike those of private enterprises which enrich private pockets 2. There can be effective regulation of income of top executives in public enterprises (with steps to ensure managerial efficiency in public enterprises) 3. The public enterprises can adopt discriminatory pricing to benefit poorer classes. 4. They make possible raising of wage income of the low-paid workers. 5. They help to reduce income from imports for private individuals.
It is worth mentioning in this connection the opinion of Prof. V.K.R.V. Rao: “sectors of economic activity which involve either monopoly conditions or strategic economic power or possession of large resources in private hands should be publicly owned and operated as public enterprises. It also means that public enterprises should make themselves responsible for the building of the economic overheads like transport, power, fuel, and basic capital goods without which increase in the production of consumption goods and services either on the required scale or necessary economic basis will not be possible, irrespective of whether it is to be in the private or public sector... without public enterprise, there can be no private enterprise. In fact, it is the former that enables the full growth of the latter” (V.K.R.V. Rao, “The Public Sector in Indian Socialism” in P.R. Brahmananda and Other (eds.), Indian Economic Development and Policy (1979), pp. 26-27.

Limitations of and abuses by the private sector also necessitate public takeover or government initiative. When initial capital requirements are large, private sector fails to come forward in a big way. In such cases, public sector enterprise is the answer (example, steel industry). When risks involved are large, private sector may be reluctant to take up the activity. For development reasons, public sector may have to fill the gap (e.g., fertilizer units). The sickness of private sector units necessitates take over by the public sector (e.g., sick textile units in Private Sector formed into National Textiles Corporation (NTC). In the interests of workers/employees, consumers or in the interest of society in general, nationalisation may be warranted (e.g., nationalisation of life insurance and major commercial banks).

To conclude, the establishment and expansion of public sector was aimed at the fulfillment of our national goals such as the removal of poverty, the attainment of self-reliance, reduction in income inequalities, expansion of employment opportunities, removal of regional imbalances, acceleration of the pace of economic development, reduction of concentration of economic power and of monopolistic tendencies. By acting as an effective countervailing power (a phrase of Professor Kenneth Galbraith, American Capitalism: The Concept of Countervailing Power) to the private sector, it would hopefully make the country self-reliance in modern technology and create professional, technological and managerial cadres so as to ultimately rid the country from dependence on foreign aid.

We have noted above the important objectives of the public sector. Now we turn to the understanding of the role of public sector in the Indian economy. To understand the role and importance of public sector in the economy, we have to get quantitative idea about it. Public sector expanded rapidly only since 1960. The size of the public sector is to be understood through several indicators such as employment, investment, and value of output. You will learn the details about public sector growth and structure in the later sections. Here it is sufficient to note the importance of public sector in the Indian economy by the size of the indicators mentioned above.

In 1992-93 public sector accounted for 6.1 per cent of total number of factories. If we go by the employment criterion, public sector had 26.5 per cent of total workers in the factory sector and 28.1 per cent of total employees. Public sector accounted for 55.1 of net fixed capital, and more than 50 per cent of fixed capital in the factory sector. As for the gross output criterion, public sector accounted for 26.2 per cent of the gross value of output of the factory sector. Public sector accounted for 32.1 per cent of net value added by the factory sector. Net value added is the gross value of output minus the value of intermediate inputs minus depreciation. These figures bring out clearly the role and importance of public sector in the Indian economy.
It may be noted in this connection that public sector provides many producer and capital goods to the private sector (e.g. steel for all economic activities and fertilizers for the agricultural sectors). Public sector has entered into a wide spectrum of industries. Its operations involve basic and capital goods like steel, coal, copper, zinc, and other minerals, and heavy machinery. We find public sector important in drugs and chemicals, fertilizers, consumer goods like textiles, hotel services, watches, bread etc. Most of these industries have strategic importance in the Indian economy since they have high linkages.

**Activity 1**

In 1966, the then Prime Minister proclaimed the objectives of public sector in India as follows: “We advocate a public sector for three reasons: to gain control of the commanding heights of the economy; to promote critical development in terms of social gain of strategic value rather than primarily on considerations of profit; and to provide commercial surpluses with which to finance further economic development.” (Quoted in *Lok Udyog*, June 1976)

Explain in about 50 words each of the objectives announced by the Prime Minister.

**Activity 2**

a) Quite a few of our public enterprises have long names. We often use abbreviations (called acronyms) to identify them. Can you spell them out? You may like to extend the list yourself.

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<th>Full name</th>
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b) Now that you know that our public enterprises produce goods (such as metals, oil, consumer goods etc.) as well as services (transport, trade, finance etc.), can you broadly classify the enterprises listed above in (a) into the two groups; as indicated below:

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6.3 STRUCTURE AND GROWTH OF PUBLIC SECTOR

During the last five decades, the share of the public sector in net domestic product (NDP) has shown a steady improvement. Measured at current prices, public sector accounted for 7.5 per cent of NDP in 1950-51, its share in 1999-2000 had risen to 24.1 per cent. Public sector, therefore, accounts for about one-fourth of national output. This is largely due to a rapid expansion of the public sector enterprises.

There is a big increase in the share of public administration and defence from 4.5 per cent to 10.1 per cent between 1950-51 and 1999-2000. The share of public sector enterprises, however, rose from 3 per cent in 1950-51 to 13.2 per cent in 1999-00. Despite this fact, the private sector still occupies a dominant position in the economy. There are some sectors such as agriculture and small-scale sector in which the share of the state is almost zero. However, in insurance, civil aviation, defence equipment, indigenous, crude oil production, etc., government ownership is cent per cent. Increasingly, industries of strategic and national importance are being brought under state ownership.

Table 6.2A gives the employment structure of the public sector.

The share of public sector in total employment reveals that in transport and communications, electricity, gas and water supply, and construction, the share of the public sector exceeded 90 per cent. After nationalisation of coal mines and major banks a major part of employment in these areas is accounted for by the public sector.

Employment in the public sector increased from 107.0 lakhs in 1971 to 191.4 lakhs in 2001 (See Table 6.2). The public sector accounted for 61.1 per cent of total organised sector employment in 1971. This share went up to 68.9 per cent by 2001.

Thus the private sector accounted for only 31.1 per cent of total organised sector employment. During the period 1976-1995 the average annual growth rate of employment in the public sector worked out to be 1.8 per cent. During the same period the growth rate of employment in the private sector was 1.1 per cent, significantly lower than the public sector employment growth rate. Public sector thus has been an important source of organised sector employment.
As you know, capital is an important factor of production. Capital formation takes place through investment. Net investment during a year is an addition made to the capital stock. In other words, capital stock in an economy increases through net investment. Savings out of current income when invested add to the capital stock of the economy. Let us now look at trends in savings, capital formation and capital stock of the public sector. Table 6.3 gives information on savings and capital formation in public and private sectors.

Gross domestic capital formation increased from 10.7 per cent of Gross National Product (GNP) during the First Plan period to 28.4 per cent during the Tenth Plan period. As for the capital formation in public sector, it increased from 3.5 per cent of GNP during the First Plan period to 8.4 per cent during the Tenth Plan period. The share of public sector in capital formation increased from 33 per cent during the First Plan period to 47 per cent during the Seventh Plan period. The rapid growth of public sector is evident from this.

However, the rate of savings of the public sector fell short of the rate of capital formation. The share of the public sector savings in total gross domestic savings decreased from 17 per cent during the First Plan period to 11 per cent during the Seventh Plan period. The public sector has been financing its capital formation through incurring debt. This debt financing increased substantially during the 1980s decade.

Let us consider the share of the public sector in capital stock. The term ‘capital stock’ refers to the total stock of plant and machinery, equipment and tools and other capital goods available at a point of time for further production. Capital stock represents produced means of production. The term investment (or gross capital formation) refers to annual flow of installation of goods partly to meet the needs of depreciation of capital stock and partly to increase the size of the total capital stock on a net basis. Data given in table 6.4 reveal that gross fixed capital formation (GFCF) during 1950-51 to 1960-61 was of the order of 12.1 per cent per annum. This was the natural consequence of the enthusiasm generated in the Second Plan to undertake the massive development of heavy and basic industries. However, this process of acquiring new plants and undertaking investment in hitherto unexplored areas did continue up to 1965-66 when GFCF shot up to the peak level of Rs. 7,870 crores, but the drought of 1965-66 and the recession that followed in 1966-67 reversed the trend and the annual growth rate slumped to 2 per cent during the 1960s. Later it picked up to 6.3 per cent during Seventies and 6.1 per cent during the Eighties. Thus public sector has made a tremendous contribution in improving Gross Fixed Capital Formation, more especially in the capital goods sector and thus laid the foundations of a strong industrial base in India. During 1993-94 and 1999-2000, however, GFCF growth rate was of the order of 2.5 per cent at 1993-94 prices.

In this connection it may be noted that capital intensity (capital per unit of output) of production in public sector is significantly higher than that of private sector. This is largely due to the differences in the nature of investment in the two sectors.

The important differences are listed below:

1) A good part of the investment in the public sector goes into economic overheads such as roads, buildings and communications which are essential for economic development but do not contribute to output in the normal sense of the term.
2) The public sector has played a significant role in developing the key industries of the economy and these industries such as iron and steel and power by their very nature are areas of high capital intensity.

3) Many projects in the public sector have longer gestation periods. Capital outlays are large and take time to yielding results.

4) Areas of higher output-capital ratios fall mainly in the private sector. Examples are consumer goods industries, small-scale and cottage enterprises.

An eloquent measure of the dynamic expansion of the public sector in India is the growth in sales of public enterprise. The sales have grown at the rate of 18.2 per cent per annum during the period 1970-71 to 1987-88. During the period 1980-81 to 1990-91, the gross product of public sector increased from Rs. 24,171 crores to Rs. 1,24,923 crores. In 1987-88, percentage of sales to capital employed (CE) was 146 and this ratio declined to 123 per cent in 2001-2002. Between 1987-88 and 2001-2002, the annual average growth rate of sales was 13.5 per cent, while that of capital employed was 14.9 per cent.

Despite many criticisms against the public sector enterprises, there is no denying the fact that rapid industrialisation of the Indian economy in the post-Independence period was mainly due to the growth of the public sector. A strong and well-diversified industrial base has been laid and in many respects Indian has achieved self-reliance.

**Public Sector in the Present Scenario**

Public sector which was expected to achieve “Commanding heights” of the economy did grow very rapidly during the planning era. But inefficiencies of various kinds have become the hallmark of the public sector. Debt financing of public investment became quite common during 1980s decade. In 1976-77 public saving financed 49 per cent of gross public investment. In 1981-82 the ratio came down to four-fifths of public investment thus was financed by borrowing from domestic private and external sectors. Public enterprises have shown very low rate of return on the huge capital invested. This has reduced their ability to regenerate themselves in terms of new investment and technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government.

In the national economic scenario resulting from the Economic reforms of 1991 the scope of public sector is reduced and is confined only to infrastructure and strategic industries. The priority areas for growth of public enterprises in future will be the following:

1) Essential infrastructure goods and services.

2) Exploration and exploitation of oil and mineral resources.

3) Technology development and building of manufacturing capability in areas which are crucial in the long term development of the economy where private sector investment is inadequate.

4) Manufacture of products where strategic considerations predominate such as defence equipment.

The disinvestment in the public sector units has been going on. Through the decade of 1990s, there has been an increasing consenses on the merits of privatisation.
According to the data (Economic Survey, 2002-03), the aggregate balance sheet assets of all public sector companies amounts to roughly Rs. 22 lakh crore which suggests that relatively modest improvements in the efficiency of their functioning would have a significant impact upon GDP growth.

**Activity 3**

Make use of Table 6.1 and calculate annual average percentage change in products originating in public sector during the period 1960-61 to 2000-01. Find the average annual change.

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6.4 WORKING OF PUBLIC SECTOR

Working of private enterprises is largely governed by the profit motive. All managerial decision in the working of private enterprise thus are geared to earn as much profit as possible. These decisions are, of course, constrained by the environment within which an enterprise is to operate. The behaviour of an enterprise working in a competitive environment differs from that operating in (say) oligopolistic environment. But the prime motive in the case of the private enterprise is maximization of profits.

In the case of public enterprises social good is the main goal and working of public enterprises is governed by this goal. Higher utilization of capacity (to produce as much output as possible given the capacity constraint), efficiency in running the enterprise, being accountable to public and following proper pricing policies are some of the norms public enterprises need to satisfy in their working. We have to pay attention to two aspects of working of public enterprises. One is public accountability. The second is pricing policies.

**Public Accountability**

A difficult problem faced by public enterprises is to reconcile the demands of accountability and autonomy. Autonomy in managing and running the concern is needed to ensure a high degree of efficiency. Without such a freedom to the management in choosing it policies (e.g., wage policy and the like) decision making is delayed, flexibility in management is lost, and efficiency in its diverse aspects cannot be ensured. On the other hand, since public undertakings are (a) using public funds and (b) are meant to work for social good, it is necessary that the independence of the management must be subjected to the accountability constraint. It is necessary to strike a proper balance between autonomy and accountability.

Three major constituents of public enterprise accountability are:

- Accountability to Parliament
- Accountability through Audit
- Accountability in Annual Reports.

Parliamentary control is essential through a number of ways such as questions, short discussions, the work of Committees on Public Undertakings (CPU), approvals and reporting about investment and loans, public enquiry based on the recommendations of CPU etc.
Auditing (financial efficiency and propriety) is an important instrument of accountability. There are also systems of Supplementary Audit and Social Audit. Each Audit has its own purpose and justification. However, sometimes too many audit objections may hinder managerial initiative and efficiency and they may come in conflict with the principle of autonomy.

Finally, there is accountability through the system of annual reports. The Bureau of Public Enterprises (BPE) has issued guidelines about the coverage in Annual Reports. Among other aspects, Annual Report must cover a summary of financial results, changes in accounting methods, changes in price policy, important events affecting production and productivity, staff welfare activities etc. In parliamentary democracy these several instruments of public accountability go some way in ensuring that public enterprises serve public need in a responsible manner.

**Price Policy in Public Enterprises**

In public enterprises, the pricing function is “diffused over the minister, the department and the managers”. Even when the government, through the minister concerned, decides about the general price-profit policy, the actual details of the price structure will have to be worked out by the management of the undertaking. In general so far as the public enterprises are concerned, the government decides the pricing policy while the managers of particular enterprises decide the price structure within the general framework of the Government’s price policy.

**Activity 4**

Of the following options for pricing products of public sector which one would you consider as the best and why?

1) Marginal Cost Pricing
2) Average Cost Pricing
3) Import Parity Price
4) Mark-up Pricing

6.5 **PERFORMANCE OF PUBLIC SECTOR**

Prior to 1991 when New Economic Policy was announced, while the government has been pushing ahead with more and more public sector undertakings, there has been considerable criticism about the poor performance, and in some cases utter failure of government undertakings in the country.

For the reasons mentioned earlier the performance of public enterprises cannot be judged solely on the basis of profit criteria. Some of the public enterprises were running on profit while many others were running on losses. The over-all picture reveals that between 1960-61 and 1977-78 percentage of profit after tax to total paid-up capital and reserves had ranged between 0.2 to 4.6 per cent. Thus by the criterion of “profit after tax” the performance of the public sector has been poor.
In Table 6.5 select profitability and performance indicators of the working enterprises is shown. A few points may be made about the financial performance of public enterprises.

Since 1991-92, gross profit as a ratio of capital employed (rate of return on capital) has shown a distinct improvement. It increased from 12 per cent in 1991-92 to 16 per cent in 1995-96. In the subsequent years it has been in the range of 13 to 15 per cent. Reviewing the situation it was mentioned: “In absolute terms net profits (after tax) of Central government public enterprises rose substantially from Rs. 2,400 crores in 1991-92 to Rs. 9600 crores in 1995-96. The rate of return as measured by net profits to capital employed rose to 10 per cent in 1995-96, which is the highest in the decade. However, as in previous years, the petroleum sector enterprises contributed the overwhelming bulk of these profits- Rs. 2899 crores out of the total 3789 crores in 1989-90 (76.6% of total). Thus, the 200 odd non-petroleum enterprises contributed a meagre sum of Rs. 883 crores. While this reflected an improvement over the net profit of Rs. 431 crores in 1988-89, the ratio of net profits to capital employed in non-petroleum sector enterprises was barely 1.3 per cent in 1989-90.” Clearly there is substantial scope for improving financial performance of non-petroleum Central government enterprises.

During 1992-93 gross profit as a proportion of capital employed declined to 11 per cent. Net profit of public enterprises declined from Rs. 3789 crores in 1989-90 to Rs. 2272 crores in 1990-91. The net rate of return declined from 4.5 per cent in 1989-90 to 2.2 per cent in 1990-91, the lowest since 1984-85. During 1991-92 it declined further to 2.1 per cent. The petroleum sector, as in the earlier years, accounted for bulk of the net profit Rs. 1779 crores out of the total of Rs. 2475 crores. But 1991-92 being a year of foreign exchange crisis, resource crunch and a year of general slackening of industrial production, the public sector also suffered the impact of overall economic deceleration.

As noted before, it is not appropriate to treat profits as the sole criterion of efficiency of the public sector. The gains to employees and welfare expenditures on employees in public enterprises are to be noted in this connection. The real emoluments per employee in the public sector went up from Rs. 11210 in 1978-79 to Rs. 17339 in 1991-92. The annual growth rate of real emoluments works out to 3.43 per cent during this period. Further, as against Rs. 420 in 1968-69, the average annual expenditure per employee on welfare activities increased to Rs. 4427 in 1988-89. A total sum of Rs. 974 crores in the form of houses, educational facilities, medical care etc., was spent in 1988-89 for the benefit of employees.

The public sector by assuming responsibility of rehabilitation of sick units (example, textile mills in private sector) had to bear a considerable burden in order to save 1.6 lakh employees from the spectrum of unemployment. This social responsibility explains to some extent the lower profitability of public sector.

By the criterion of capacity utilization also, the public sector performance is found to be better (relative to the private sector) by some studies. The foreign exchange earnings of public enterprises also constitute a performance indicator. The value of exports of central public sector enterprises increased from Rs. 502 crores in 1972-73 to Rs. 6366 crores in 1989-90. Physical productivity measures also are to be used as performance indicators.
Privatisation

Through the decade of the 1990s, there has been an increasing consensus on the merits of privatisation. The aggregate balance sheet assets of all public sector companies amounts to roughly Rs. 22 lakh crore. This suggests that relatively modest improvements in the efficiency of their functioning would have a significant impact upon GDP growth. Hence, policies on privatisation are an important component of policies for efficiency and productivity.

The privatisation process began in 1991-92 with sale of minority stakes in some PSUs. From 1999-2000 onwards, the focus shifted to strategic sales. Table 6.6 summarises the transactions which have taken place in 2002-03, which have given proceeds of Rs. 3,342 crore.

One of the major concerns often expressed with respect to privatization is that with a transfer of management into private hands, the interest of employees might suffer. Government has chosen to put in requirements into the shareholder agreements, executed as a part of strategic sales, to ensure that there is no retrenchment of employees at least for a period of one year after privatisation, and even thereafter, retrenchment to be possible only under the Voluntary Retirement Scheme (VRS) as applicable under Department of Public Enterprises (DPE) guidelines or the Voluntary Separation Scheme, which was prevailing in the company prior to disinvestments, whichever is more beneficial for the employee. These provisions have been included to enhance employees welfare.

It is interesting to note that while much is made of the likely adverse impact of disinvestments on employment, in fact, over the last 10 years, as reported by the PSE Survey 2000-01, public sector undertakings have seen a net reduction in employment from a level of 2,179 million employees in 1991-92 to a level of 1,742 million in 2000-01, or a reduction of 20 per cent over this period. Till March 31, 2001, 3.69 lakh employees had opted for VRS. In comparison, the retrenchment of employees after disinvestment has been marginal.

In eight disinvested PSUs and five disinvested ITDC Hotels, against an initial employee strength of 27,967 at the time of disinvestments, only 2,119 employees were retrenched through VRS, and another 910 for other reasons. As against a total of 3,029 post disinvestment separations, 855 fresh appointments have been made resulting in a net reduction of 2,174 employees or about 7.8 per cent employees, compared to the employment level at the time of disinvestments.

Activity 5

a) Use data in Table 6.5 to compute:
   i) Gross Profit-Turnover ratio, and
   ii) Turnover-Capital employed ratio and comment on the trends in these ratios.

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b) Graph the two rates of return (Table 6.5) measuring years on X-axis and rate of return on Y-axes, and comment on the emerging profiles.

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6.6 SUMMARY

The public sector in India has grown very rapidly. There are important reasons for promoting public sector. Public sector growth has helped in achieving infrastructural development on the one hand and a strong and well-diversified industrial base on the other. Criteria of operational efficiency show that there is need for improving substantially the performance of public sector enterprises. This is a managerial challenge, given the economic environment within which public enterprises have to function.

6.7 KEY WORDS

Public Sector : Any activity owned, controlled and managed by the Government (Central, State, Local).

Autonomy and Accountability : Autonomy in managing and running the concern is needed to ensure a high degree of efficiency. Without such freedom to the management in choosing its policies, the decision-making processes, wage determination and the like, the flexibility for management is lost and efficiency in its diverse aspects cannot be ensured. On the other hand, since public undertakings are using public funds and they are meant to work for social good, it is necessary that the independence of the management must be subjected to the accountability constraint. It is necessary to strike a proper balance between autonomy and accountability.

6.8 SELF ASSESSMENT QUESTIONS

1) State and explain the major objectives of the public sector. In your opinion which of them are more important.

2) Give different criteria, evaluate the performance of public enterprises.

3) Using different criteria, evaluate the performance of public enterprises.

4) Refer to recent Public Enterprises Survey and update data in Table 6.5.

5) Explain the following concepts:
   a) Gross Investment
   b) Net Investment
   c) Capital
   d) Gross value added

6) As a prospective manager in a public enterprise how would you resolve the possible conflict between autonomy and public accountability of public enterprises?
6.9 FURTHER READINGS


The following are regular annual publications of the Government of India. Make sure that you get the latest issue of each. You may also update the statistics given in various tables.

